UNITED
NATIONS

E

Economic and Social Council

Distr.
GENERAL

E/1997/43
24 April 1997

ORIGINAL: ENGLISH

Substantive session of 1997
Geneva, 30 June-25 July 1997
Item 10 of the provisional agenda*

REGIONAL COOPERATION IN THE ECONOMIC, SOCIAL AND RELATED FIELDS

Summary of the economic survey of Latin America and the Caribbean, 1996

EXECUTIVE SUMMARY

The dominant feature of the Latin American and Caribbean economic panorama in 1996 was the re-emergence of the pattern of modest growth, accompanied by price stability that had characterized the region's economy during the 1900s until the Mexican financial crisis erupted at the end of 1994. An important development in this panorama was the gradual recovery of the Mexican and Argentine economies. The average growth rate in gross domestic product (GDP) for the region as a whole will be around 3.4 per cent (1.7 per cent per capita), with average inflation dropping below 20 per cent. Growth was spurred by a continued expansion of exports and aided by improved access to external financing. Capital inflows should, in fact, more than offset the current account deficit (2 per cent of regional GDP).

The recovery in output occurred in an international economic context that was somewhat less favourable than in recent years. World growth continued at a steady pace. Price trends for commodities especially important to Latin America and the Caribbean were uneven. Prices for many metals and for coffee declined, although grain prices rose and petroleum prices were higher than in recent years. Thus, although the terms of trade for the region as a whole did not change with respect to 1995, they improved significantly for only three countries, while declining for the majority.

* E/1997/100.

97-11039 (E) 060597

/...

Whereas the regional economic pattern in 1995 was one of great divergence - since the Mexican and Argentine economies contracted while others continued their previous expansions - in 1996 there was greater convergence. On the one hand, Mexico and Argentina returned to positive growth rates. On the other hand, several countries in the region saw their economies slow somewhat in 1996, as a result of policies designed to moderate inflation, as in Brazil, Chile, Colombia and Costa Rica, or to prevent balance-of-payments problems, as in Peru. In consequence, most of the countries experienced growth of between 3 per cent and 5 per cent. Only six had rates above that range, while GDP was flat in two countries (Costa Rica and Jamaica); two others (Antigua and Barbuda and Venezuela) experienced economic contraction.

Exports were the dominant factor in stimulating economic growth for the region as a whole, with export volume rising nearly three times as fast as GDP. Among the components of domestic demand, consumption appears to have risen faster than investment for the region as a whole, although the latter resumed its positive evolution after the previous year's decline.

Despite improving trends in economic growth, employment did not follow suit. On the contrary, urban unemployment in 1996 reached its highest rate for the decade. The regional situation was greatly influenced by the fact that employment generation in Argentina and Mexico lagged behind the recovery of economic activity, while other countries with relatively favourable employment trends in previous years encountered difficulties in 1996 (Brazil and Colombia). Only a few countries maintained a declining unemployment rate (Chile and Peru).

Inflation continued to decline in 1996. The average regional inflation rate dropped from 888 per cent in 1993 to 337 per cent in 1994, 26 per cent in 1995, and 20 per cent in 1996, its lowest level since the early 1970s. Moreover, many countries achieved or came close to achieving single-digit inflation. In the case of Argentina, prices did not rise. At the other extreme, in Venezuela inflation briefly reached three digits, Brazil and Mexico made especially significant improvements in their price trajectories.

Stabilization continued to be a priority for most Governments in the region, with fiscal and monetary policies as their principal instruments. Chile again posted a fiscal surplus, while the Dominican Republic, Mexico, Panama, Paraguay and Peru achieved fiscal balance. While Venezuela managed to eliminate its large deficit entirely, four countries (Argentina, Colombia, Ecuador and El Salvador) saw significant deterioration in their fiscal accounts. Although the fiscal situation in Brazil and Costa Rica did not significantly worsen, it remained worrisome.

An austere monetary policy was central to stabilization efforts. High interest rates were frequently used to restrain aggregate demand and limit the expansive impact of accumulating reserves on spending. Appreciation of the exchange rate also helped reduce inflation; this occurred in 11 countries in the region; only five registered real devaluations. While appreciating exchange rates helped control inflation, they also contributed to trade problems in a number of cases.

Regional merchandise exports in 1996 increased by 11 per cent over those of 1995. Apart from the oil-exporting countries, the best export performers were the countries that managed to compensate for unfavourable price trends with large increases in volume sold. Merchandise imports in 1996 increased by 10.6 per cent. The most notable contributions to import came from Argentina and Mexico, where imports had fallen substantially in 1995 because of economic contraction.

Trade between Latin American and Caribbean countries continued to be important, although it lost some of the impetus it had shown in previous years. Of the regional integration groups for which data are available, only in the case of MERCOSUR did trade among member countries grow faster than trade as a whole.

The region's current account deficit remained more or less stable at US$ 32.5 billion. Argentina and Brazil experienced large increases in their deficits; Mexico and Panama suffered smaller increases, while Chile moved from surplus to deficit. Peru, by contrast, achieved a significant reduction in its deficit; Ecuador moved from deficit to surplus, and Venezuela greatly expanded its surplus.

Current account deficits were financed by large capital inflows. Indeed, one of the most significant trends in 1996 was the consolidation of access by most Latin American countries to international financial markets, access which had been partially interrupted by the Mexican financial crisis. Another important trend was the change in the composition of capital flows, which were more heavily concentrated in direct investment and in medium- and long-term debt instruments.

CONTENTS

	Paragraphs	Page
INTRODUCTION	1 - 13	5
I. ECONOMIC POLICY	14 - 22	7
II. ECONOMIC ACTIVITY	23 - 28	9
III. INFLATION	29 - 32	11
IV. EMPLOYMENT AND WAGES	33 - 35	11
V. THE EXTERNAL SECTOR	36 - 58	12
A. Foreign trade and the terms of trade	36 - 50	12
B. The current account and external financing	51 - 58	15

INTRODUCTION

1. The dominant feature of the Latin American and Caribbean economic panorama in 1996 was the re-emergence of the pattern of modest growth accompanied by price stability that had characterized the region's economy during the 1990s until the Mexican financial crisis erupted at the end of 1994. An important development in this panorama was the gradual recovery of the Mexican and Argentine economies. The average growth rate in gross domestic product (GDP) for the region as a whole will be around 3.4 per cent (1.7 per cent per capita), with average inflation dropping below 20 per cent and price rises in more than half the countries in the region at or near single-digit levels. Growth was spurred by a continued expansion of exports and aided by improved access to external financing. Capital inflows of some US$ 50 billion should, in fact, more than offset the current account deficit (2 per cent of regional GDP) and result in a substantial accumulation of reserves. On the other hand, unemployment was higher than in 1995, suggesting that the patterns of growth characterized by inequality persisted in 1996.

2. The recovery in output occurred in an international economic context that was somewhat less favourable than in recent years. While world growth continued at a steady pace, world trade decelerated from its exceptional volume growth rate of 8 per cent in 1995 to 5 per cent in 1996. Moreover, price trends for commodities especially important to Latin America and the Caribbean were uneven. For example, prices for many metals and for coffee declined, although grain prices rose. Petroleum prices were higher than in recent years, benefiting exporters but causing problems for importers. Thus, although the terms of trade for the region as a whole did not change with respect to 1995, they improved significantly for only three countries, while declining for the majority.

3. Whereas the regional economic pattern in 1995 was one of great divergence - since the Mexican and Argentine economies contracted while others continued their previous expansions - in 1996 there was greater convergence. On the one hand, Mexico and Argentina returned to positive growth rates. On the other hand, several countries in the region saw their economies slow somewhat in 1996, as a result of policies designed to moderate inflation, as in Brazil, Chile, Colombia and Costa Rica, or to prevent balance-of-payments problems, as in Peru. In consequence, most of the countries experienced growth of between 3 per cent and 5 per cent. Only six had rates above that range; of those, only Chile and Guyana were continuing a pattern of sustained growth. GDP was flat in two countries (Costa Rica and Jamaica); two others (Antigua and Barbuda and Venezuela) experienced economic contraction.

4. Exports were the dominant factor in stimulating economic growth for the region as a whole, with export volume rising nearly three times as fast as GDP. Exports were a primary factor in the Mexican recovery and compensated for slack domestic demand in a number of countries, including Colombia, Peru, Venezuela and much of Central America. Among the components of domestic demand, consumption appears to have risen faster than investment for the region as a whole, although the latter resumed its positive evolution after the previous year's decline. Despite improving trends in economic growth, employment did not follow suit. On the contrary, urban unemployment in 1996 reached its highest

rate for the decade. The regional situation was greatly influenced by the fact that employment generation in Argentina and Mexico lagged behind the recovery of economic activity, while other countries with relatively favourable employment trends in previous years encountered difficulties in 1996 (Brazil and Colombia). Only a few countries maintained a declining unemployment rate (Chile and Peru). Salaries followed a more heterogeneous path, increasing in some countries, stagnating in others, and declining in yet others.

5. Inflation continued to decline in 1996. The average regional inflation rate dropped from 888 per cent in 1993 to 337 per cent in 1994, 26 per cent in 1995, and 20 per cent in 1996, its lowest level since the early 1970s. Moreover, many countries achieved or came close to achieving single-digit inflation. In the case of Argentina, prices did not rise. At the other extreme, in Venezuela inflation briefly reached three digits. Brazil and Mexico made especially significant improvements in their price trajectories.

6. Stabilization continued to be a priority for most Governments in the region, with fiscal and monetary policies as their principal instruments. Chile again posted a fiscal surplus, while the Dominican Republic, Mexico, Panama, Paraguay and Peru achieved fiscal balance. While Venezuela managed to eliminate its large deficit entirely, four countries (Argentina, Colombia, Ecuador and El Salvador) saw significant deterioration in their fiscal accounts. Although the fiscal situation in Brazil and Costa Rica did not significantly worsen, it remained worrisome.

7. An austere monetary policy was central to stabilization efforts. High interest rates were frequently used to restrain aggregate demand and limit the expansive impact of accumulating reserves on spending. Appreciation of the exchange rate also helped reduce inflation; this occurred in 11 countries in the region; only five registered real devaluations. While appreciating exchange rates helped control inflation, they also contributed to trade problems in a number of cases.

8. Regional merchandise exports reached $248 billion in 1996, an increase of 11 per cent over 1995. Apart from the oil-exporting countries, the best export performers were the countries that managed to compensate for unfavourable price trends with large increases in volume sold. This group included exporters of manufactured goods (such as Mexico), as well as Bolivia, Dominican Republic, Uruguay and some Central American countries.

9. Merchandise imports in 1996 exceeded $245 billion, an increase of 10.6 per cent, somewhat lower than the figure of 12.3 per cent in 1995. The most notable contributions to import value came from Argentina and Mexico, where imports had fallen substantially in 1995 because of economic contraction.

10. Trade between Latin American and Caribbean countries continued to be important, although it lost some of the impetus it had shown in previous years. Of the regional integration groups for which data are available, only in the case of the Southern Cone Common Market (MERCOSUR) did trade among member countries grow faster than trade as a whole. Since an increase in factor payments offset the decline in the trade deficit, the region's current account deficit remained more or less stable at $32.5 billion. Countries with large

increases in their deficits were Argentina and Brazil; Mexico and Panama suffered smaller increases, while Chile moved from surplus to deficit. Peru, by contrast, achieved a significant reduction in its deficit; Ecuador moved from deficit to surplus, and Venezuela greatly expanded its surplus.

11. Current account deficits were financed by large capital inflows. Indeed, one of the most significant trends in 1996 was the consolidation of access by most Latin American countries to international financial markets, access which had been partially interrupted by the Mexican financial crisis in 1994 and 1995. Another important trend was the change in the composition of capital flows, which were more heavily concentrated in direct investment and in medium- and long-term debt instruments.

12. Among the elements contributing to this favourable tendency were international financial assistance programmes to Mexico and Argentina in 1995, the exceptional development of international financial markets over the past 18 months, stable interest rates in the United States and low interest rates in Japan and Europe. These changes were reflected in higher-quality bond issues with longer maturities and narrower interest spreads. The heavy influx of foreign direct investment, which to 1993 resulted chiefly from privatization initiatives, in 1996 included a substantial fresh capital component. An increasing number of Latin American and Caribbean countries have begun to adopt policies designed to encourage flows of longer-term capital.

13. The influx of foreign direct investment has enabled Governments to depend less on short-term flows, and better bond terms have reduced the debt service burden in some of the region's larger economies.

I. ECONOMIC POLICY

14. The priority objective for nearly all the countries of Latin America and the Caribbean was to make headway in stabilizing their economies. To that end, they continued to apply prudent fiscal policies and tight monetary control. Ample scope for these policies was provided by the favourable international situation, which was characterized by low interest rates, sustained external demand and a ready supply of short- and long-term capital, flows of which recovered remarkably well only a few months after the upheaval in the region's financial markets. The main effect of good capital flows was to keep nominal exchange rates at levels consonant with domestic price expectations. In countries where there were signs of a slowdown in economic activity and more moderate inflation rates, policies to curb demand were relaxed. In others, a contraction in domestic demand reduced some of the pressure on the balance of payments.

15. In Chile, Guatemala, Mexico, Panama, Paraguay, Peru and the Dominican Republic, improvements in tax collection and tighter control over public spending enabled the authorities to balance the public accounts or achieve a surplus. There was a substantial improvement in Cuba, Haiti, Nicaragua and Venezuela, while the deficit remained practically unchanged in another four countries: Bolivia, Honduras and Uruguay (countries with a moderate deficit) and Costa Rica (whose deficit is somewhat larger). Although Brazil succeeded in

narrowing its deficit, the gap remained sizeable. The fiscal situation deteriorated in only four countries: Argentina, Colombia, Ecuador and El Salvador - although only Ecuador posted a deficit of more than 3 per cent. In sum, only three of the 19 countries under consideration posted public-sector financial deficits exceeding 3 per cent. Fiscal management, however, has become more procyclical - the correlation between income and activity levels has strengthened, while expenditure has tended to contract in recessionary situations - and demand in social areas has been curbed.

16. The quest for stabilization as a necessary condition for growth was also supported by monetary and foreign exchange policies that attempted to hold liquidity and exchange rates at levels compatible with a continuing reduction of inflation. As regards foreign exchange policy, the currencies of 11 countries of the region (Bolivia, Brazil, Chile, Colombia, Dominican Republic, El Salvador, Haiti, Mexico, Nicaragua, Paraguay and Peru) appreciated in varying degrees. This was the result of sizeable inflows of external short- and long-term capital and, in most cases, tight monetary policies. A further three countries (Costa Rica, Guatemala and Panama) held their real exchange rates stable, and only in five countries (Argentina, Uruguay, Ecuador, Honduras and Venezuela) was there a real currency devaluation. In Argentina and Uruguay, the rise in the real effective exchange rate was due to the devaluation of their respective currencies against the Brazilian _real_; and Venezuela's devaluation was substantial in relation to the preceding year's sharp appreciation.

17. Generally speaking, monetary policy set liquidity expansion targets consistent with declining inflation. Whenever monetary expansion showed signs of overshooting these targets, the excess was soaked up through open-market operations, which frequently set up a dichotomy between stabilization and growth. In some countries where economic activity slowed, the authorities opted to relax their monetary policy in order to concentrate on growth.

18. The solvency problems that affected banking systems in a number of countries the year before left traces that have still not been erased. In most cases, uncertainty has been alleviated by substantial assistance from the public sector to bail out some of the banks concerned; the swap of overdue loan portfolios for government securities, however, has involved a fiscal or quasi-fiscal outlay that continues to exert pressure on fiscal accounts and interest rates. This problem is aggravated in cases where activity levels are not sufficient to provide an escape from insolvency for productive agents, whose credit arrears are worrisomely high.

19. Against this background, inflation fell in nearly all the countries. The growth rate, on the other hand, remained moderate and unemployment skyrocketed. In many parts of the region, with the possible exception of Chile, economic policy is being forced into uncomfortable choices among conflicting objectives, such as fiscal balance, employment, inflation, debt, domestic saving and relative prices. The only way to reconcile these objectives would appear to be to secure a steady trajectory of growth, with sufficient consumption to foster, but not outstrip, that growth. An international context favourable to the region would help greatly in achieving this aim.

20. With a few exceptions, during 1996 the countries of Latin America and the Caribbean made only minor adjustments to their trade policies. There was an increase in restrictions, which counteracted (if only temporarily) the opening of the economies initiated several years earlier. This was particularly true in Guatemala, which implemented a number of measures of a protectionist nature. Guatemala invoked the safeguard clause in levying special tariffs on Mexican cement. A similar measure was applied to poultry products. In addition, plans went ahead to reduce tariffs on inputs, raw materials and capital goods used by industry and to lower by 1 per cent the tariff applied to finished products; the result was to raise effective protection for all branches of industry.

21. In 1996, the Latin American countries continued to push ahead with structural reforms, but the pace was slower than in previous years. Rather, the emphasis was on implementing reforms that had already been defined, such as the start-up of new social security systems based on capitalization of contributions and the sale of a number of State-owned enterprises.

22. The integration process continued to make headway in 1996, though varying progress was made by the region's four customs unions, each of which is at a different stage of development; common external tariffs determine the tariff policies of the great majority of the countries of the region. The number of preferential and free trade agreements continued to increase, and various initiatives were set in motion that could result in multilateral convergence of the different integration agreements. Thus, the model of ope.. regionalism appears to have firmly taken root in the region.

II. ECONOMIC ACTIVITY

23. The gross domestic product (GDP) of Latin America and the Caribbean expanded by 3.4 per cent in 1996, following a lacklustre performance the year before, and in so doing resumed its former moderate growth trend. As a result, per capita GDP climbed by 1.7 per cent, which was somewhat higher than the average annual rate registered since the start of the decade. This upward trend notwithstanding, the region's GDP was only 34 per cent greater in 1996 than it had been in 1980 (before the onset of the debt crisis), and per capita GDP was 1 per cent lower. The region's stronger showing in 1996 was chiefly attributable to an upturn in economic activity in Argentina, Mexico and Uruguay. More robust growth in Barbados, the Dominican Republic, Guyana and Nicaragua was also a contributing factor, as was the swift pace of economic expansion in Chile, even though it was somewhat slower than the year before. Trends in Bolivia and Honduras were much the same as in 1995, with both countries posting growth rates quite close to the regional average. Another 11 countries witnessed a decline in their economies' growth rates, however. The downturn was especially marked in Peru, whose rate of expansion dropped by over five percentage points (see table 2).

24. Argentina and Mexico both began to make a comeback as the strong negative impacts of the financial crisis of December 1994 dissipated; that crisis, which had been unleashed by the steep devaluation of the Mexican peso, had caused Mexico's external capital inflows to reverse direction, and the after-effects of that turnabout had been felt in Argentina. In 1996, however, external capital

began to flow into both of these countries once again, thus helping to ease their external constraints. After a slump in 1995 that was mainly an outgrowth of Argentina's recession, Uruguay's economic reactivation started to take hold as its neighbour's economy began to recover.

25. In contrast, the weaker performances turned in by a large group of countries were due entirely to the adjustment policies which they had implemented either when their economies began to overheat (e.g., Brazil, Chile, Colombia, El Salvador, Guatemala and Peru) or in response to major macroeconomic disequilibria, as in the case of, again, Brazil, as well as Costa Rica and Venezuela - all of which were striving to deal with hefty fiscal deficits - and, to a lesser extent, Ecuador. The decline in Paraguay's growth rate, on the other hand, was accounted for by the banking crisis in that country.

26. Seven of the economies included in table 2 (Barbados, Chile, Cuba, Dominican Republic, Guyana, Nicaragua and Saint Lucia) expanded at a rate of over 5 per cent. Another 13 (Argentina, Bolivia, Belize, Brazil, Colombia, El Salvador, Grenada, Guatemala, Honduras, Mexico, Saint Vincent and the Grenadines, Trinidad and Tobago, and Uruguay) recorded increases of between 3 per cent and 5 per cent, which would seem to point to some degree of convergence as regards the pace of growth in the region's economies. Five others (Ecuador, Haiti, Panama, Paraguay and Peru) had a growth rate of 2 per cent, while GDP was flat in two countries (Costa Rica and Jamaica) and shrank in Venezuela and in Antigua and Barbuda.

27. Despite the still high population growth rates in many of the countries, most of them boasted gains in per capita GDP (see table 3). In seven countries - Barbados, Chile, Cuba, Dominican Republic, Guyana, Saint Lucia and Uruguay - this indicator of well-being climbed by over 4 per cent; in another 10 - Argentina, Bolivia, Brazil, Colombia, El Salvador, Grenada, Mexico, Nicaragua, Saint Vincent and the Grenadines, and Trinidad and Tobago - it rose by between 1 per cent and slightly under 3 per cent; and in five others - Belize, Guatemala, Honduras, Panama and Peru - it showed a slight advance. In the remaining seven countries (Antigua and Barbuda, Costa Rica, Ecuador, Haiti, Jamaica, Paraguay and Venezuela), per capita GDP lost ground.

28. Nevertheless, as a result of the poor showing of the Latin American and Caribbean economies in the preceding decade, only nine countries had a substantially higher per capita GDP in 1996 than they had in 1980: Saint Kitts and Nevis (136 per cent), Saint Lucia (98 per cent), Saint Vincent and the Grenadines (93 per cent), Dominica (78 per cent), Antigua and Barbuda and Grenada (74 per cent), Chile (56 per cent), Colombia (36 per cent) and Belize (33 per cent). In another seven countries it was somewhat higher: Dominican Republic (17 per cent), Uruguay (14 per cent), Jamaica (13 per cent), Panama (10 per cent), Barbados (8 per cent), Guyana (7 per cent) and El Salvador (5 per cent). In Argentina, Brazil, Costa Rica and Paraguay, this indicator was in the range of 2-0 per cent above its level of the early 1980s, but the steepest decréases in per capita GDP were seen in Haiti (-40 per cent), Nicaragua (-34 per cent), Trinidad and Tobago (-30 per cent), Venezuela (-28 per cent), Peru (-13 per cent), Guatemala (-12 per cent), Bolivia (-10 per cent), Suriname (-8 per cent), Honduras (-5 per cent), Ecuador (-4 per cent) and Mexico (-1 per cent) (see table 3).

III. INFLATION

29. The regional inflation rate was somewhat lower in 1996. This decline - from 26 per cent in 1995 to less than 20 per cent in 1996 - marked a continuation of the downward trend that had begun in 1994 when the rate plummeted to 340 per cent from its 1993 level of 890 per cent. This outcome was fairly evenly distributed in 1996, since inflation was down in 10 of the 22 economies that were analysed, and the consumer price index held steady or rose only slightly in another 11. The only country to find itself in a worse position than before was Venezuela, where inflation soared to triple-digit levels (see table 4).

30. Inflation was negligible in three countries (Argentina, Barbados and Panama), in the single digits in another eight countries (Bolivia, Chile, the Dominican Republic, El Salvador, Guyana, Nicaragua, Paraguay, and Trinidad and Tobago) and ranged between 10 per cent and 12 per cent in three others (Brazil, Guatemala and Peru). Another eight countries (Colombia, Costa Rica, Ecuador, Haiti, Honduras, Jamaica, Mexico and Uruguay) registered price increases of between 15 per cent and 30 per cent. The marked reduction in the regional rate of inflation and the improved performance of the great majority of the countries were made possible by the stabilization programmes that many of them implemented in the late 1980s or early 1990s, with Brazil following suit in mid-1994. These stabilization efforts suffered some setbacks - as occurred in Mexico in 1995 and Venezuela in 1993 - but even in these cases, inflation subsided once the countries in question had set strict adjustment plans into motion.

31. The considerable drop seen in Brazil's inflation rate since the second half of 1994 marked the end of the last of the near-hyperinflationary episodes experienced in the region during the 1980s and early 1990s. Bolivia's rate of price increases has been moderate since 1986, and Argentina has made a great deal of progress in curbing inflation since 1992; in fact, the rate of inflation in 1996 was nearly 0 per cent, which was an all-time record for that country and one of the lowest rates anywhere in the world at the time. Inflation edged up a bit in Peru, where great strides had been made in the preceding years in slashing the very high rates registered in 1988-1990. The annual inflation rate in Nicaragua has been falling steeply since 1992, reaching 9 per cent in 1996. These results stand out in stark contrast to the level of inflation up to 1991, which peaked at nearly 34,000 per cent in 1988.

32. Brazil has been very successful in combating inflation, driving down its rate of price increases from 2,500 per cent in 1993 to 930 per cent in 1994, to 22 per cent in 1995 and to just 10 per cent in the 12-month period ending in November 1996. The plan launched by the Government in July 1994 has now been in effect for 30 months, which is in itself an extraordinary achievement in view of the fate of all the other plans introduced since 1980.

IV. EMPLOYMENT AND WAGES

33. The moderate upturn in the region's growth rate did not bring any improvement in the labour situation. The unemployment rate for Latin America and the Caribbean had soared to critical proportions in various countries in

1995 and then rose yet again in 1996 (from 7.3 per cent to 7.7 per cent). This will mean that the unemployment rate for the region's urban areas will close out 1996 at its highest level so far this decade. This situation can be accounted for by the fact that the labour supply remained fairly stable whereas job creation was sluggish.

34. The region's overall performance in this area was mainly the outcome of three patterns of behaviour. First, there were countries that witnessed a serious deterioration in their labour situation in 1995 and were unable to make any significant improvement in that state of affairs in 1996. Secondly, there were a number of countries whose labour markets had performed fairly well up to 1996 but which ran into difficulties with regard to job creation during the year. Finally, there were a few countries that managed to sustain a downward trend in unemployment.

35. New job creation was concentrated in tertiary activities. The only large country in the region where industrial employment showed a substantial increase was Mexico, where it made up for the setback suffered by the sector the year before. The pace of job creation in the maquila industry was particularly notable. Despite an upswing in some formal activities, at the regional level the trend towards increasingly precarious forms of participation in the labour market persisted; this phenomenon can be ascribed both to the expansion of the more informal types of occupations and to the growing instability of many jobs within formal activities. Trends in real wages were mixed, with sizeable increases in some countries, stagnation in others and steep decreases in the rest.

V. THE EXTERNAL SECTOR

A. Foreign trade and the terms of trade

36. Merchandise exports from the region in 1996 exceeded $248 billion, a rise of 11 per cent over the preceding year (see tables 6 and 9). This represented a moderation of the extraordinary burst of export growth seen during 1994 and 1995. Owing to the size of its economy, Mexico once again shaped the overall figures for the region; in fact, of the $24.6 billion increase in the region's exports, Mexico accounted for $16 billion. Mexican exports grew at a vigorous rate of nearly 20 per cent in 1996, although this did not match the 31 per cent achieved in 1995. The overall growth rate reflected the expansion of manufacturing exports, including those of maquila industries. However, there was also a substantial rise in earnings from oil exports (35 per cent), thanks to increased prices and volumes. The deceleration was regionwide - with only Venezuela and, to a lesser extent, Bolivia and Uruguay, recording higher growth rates - and was due to a similarly generalized situation of flat or declining export prices, which contrasted with the sharp increases noted the preceding year. Only the main oil-exporting countries and Argentina were spared these negative developments.

37. The higher earnings that accrued to Venezuela and Ecuador were chiefly the result of improved hydrocarbon prices. The average export price of Venezuela's State-owned oil company, Petróleos de Venezuela, during the first 11 months of

1996 was $17.70 per barrel, some $3 above the 1995 average. The volume of shipments was also considerably greater. Ecuador's results were further improved by the rise in banana and fishmeal export prices.

38. Of the remaining countries, Bolivia, the Dominican Republic, El Salvador, Honduras, Nicaragua and Uruguay successfully offset declining or flat unit values by substantially boosting physical export volumes (by 10 per cent or more). Argentina augmented export volumes less (7 per cent) but had the advantage of appreciably higher prices.

39. Within this group, the maquila industry made a vital contribution to the expansion of export volumes from the Central American countries. This was especially so in Nicaragua, where export earnings jumped by 19 per cent. The sustained growth of maquila activities in Honduras made up for the sharp fall in coffee prices and the smaller drop in the price of shrimp. A similar situation occurred in El Salvador, where maquila shipments also expanded, as did sugar sales.

40. In Argentina and Uruguay, export earnings went up by 13 per cent and 11 per cent respectively. Both countries more than made up for the fall in meat prices by increasing their shipments, although volume expanded less in Argentina, where prices for other products were better. Argentina exported greater quantities of cereals, fruits and fishery products, certain primary manufactures and fuel. Both countries' exports benefited from sluggish domestic demand during the immediately preceding period and were able to take advantage of expanding foreign markets.

41. These factors also contributed to significant growth in the volume of Bolivia's exports, much of which was attributable to the performance of non-traditional products. The appreciable growth in the Dominican Republic's export volumes, on the other hand, was largely attributable to better weather conditions and to the United States' higher sugar import quota.

42. In another group of countries, the lacklustre growth of export volumes resulted in equally modest increases in export earnings. Brazil's export performance varied depending on the product, but exports as a whole declined during the year, in spite of governmental efforts to promote them. In Colombia there was a surge in traditional exports such as coal, hydrocarbons and coffee, but a drop was seen in non-traditional exports as the Colombian peso appreciated in real terms.

43. Costa Rica's exports were adversely affected by the fall in coffee prices, a leaner banana harvest and the contraction of the maquila industry due to the imposition by the United States of a ceiling on clothing imports. In Peru, variations between products were mainly a reflection of price differences. Strong rises in export value were recorded for fish, chemicals, iron ore, petroleum, agricultural products and non-metallic minerals.

44. Lastly, five countries recorded lower export earnings than the year before, in most cases as the result of a combination of smaller volumes and lower prices. In Haiti the fall was particularly marked (19 per cent) in view of the preceding year's remarkable upsurge (84 per cent). Chile suffered the effects

of a downturn in the high prices of its commodities - chiefly copper - which fell back to levels more compatible with long-term trends. The same kind of situation arose in Guatemala in relation to coffee, and in Panama, where domestic and external factors had an adverse effect on the production of exportables, which performed badly. In Paraguay, however, the fall in earnings was due chiefly to a decline in production for export, particularly of cotton.

45. In view of these price trends in Latin America's exports (which were heavily influenced by commodity prices), together with the higher level of oil prices it is not surprising that the real terms of trade (the ratio between export prices and import prices) should have suffered an overall deterioration in Latin America in 1996 (see table 8). The only countries where the terms of trade improved appreciably were the oil-exporting countries - Ecuador and Venezuela - and Argentina.

46. The region's merchandise imports in 1996 approached $245.5 billion and increased almost as much as exports did (nearly 11 per cent). This outcome, which was only just below the preceding year's figure, signals a consolidation of the region's return to more sustainable levels after the upsurge of 1994 (19 per cent). Particularly marked upturns were registered in Argentina and Mexico, the two countries most affected by the adjustment in 1995, while the extraordinary import boom in Brazil came to an end (see tables 7 and 9).

47. With unit values showing little change, in general, the variations in import value were basically determined by trends in import volumes, which were related in their turn to movements in GDP. Generally speaking, imports expanded faster in countries that were experiencing a reactivation of their economies. However, since economic activity slackened in most of the countries, in many cases imports stagnated, fell or rose much more slowly.

48. In 1996, out of all the Latin American regional groupings for which data are available, only in MERCOSUR did trade among member countries expand faster than trade with the world as a whole. This confirms that the relatively more rapid growth observed in intrazonal trade in Latin America is a subregional rather than a regional phenomenon. As a proportion of trade of the Latin American Integration Association (LAIA) with the entire world, a ratio which in recent years had held steady with only minor variations, intra-LAIA trade dropped by nearly 1 percentage point in 1996, to 16 per cent.

49. The region's trade deficit narrowed by some $800 million to stand at $8 billion. This performance was largely a result of favourable trends in the oil market, however, since Venezuela alone recorded an increase of nearly $5 billion in its trade surplus. In fact, the trade balance actually worsened in a majority of the countries, with the only exceptions being countries where economic activity slowed (i.e., Colombia, Ecuador, El Salvador, Panama, Paraguay and Peru, as well as Venezuela).

50. The most significant changes in quantitative terms, other than in Venezuela, occurred in Brazil, whose trade deficit widened; Argentina, whose former hefty deficit reappeared; and Ecuador, where the trade surplus grew considerably.

B. The current account and external financing

51. The deficit on current account in Latin America and the Caribbean grew relatively little, widening from $32 billion in 1995 to just $32.5 billion in 1996. Thus it was still much smaller than the large deficit recorded in 1994, which had approached $50 billion (see table 9). The 1996 financial gap equalled a mere 2 per cent of GDP, and this was easily financed, since the region's reserve assets swelled by $18.5 billion.

52. In 1996 the region consolidated its progress towards full participation in international financial markets, a process that had resumed midway through 1995 after being seriously disrupted in the early months of that year by the Mexican financial crisis and its aftershocks in Argentina. Changing trends in the composition of capital flows, which were first observed in 1995, also gathered considerable momentum in 1996. These changes occurred in a highly favourable international climate of stable interest rates in the United States and low interest rates in Germany and, especially, Japan, following the timely provision, in 1995, of large amounts of international financial assistance, particularly to Mexico and Argentina. Thus, in 1996 long-term capital accounted for a substantial proportion of current-account financing.

53. Foreign direct investment, which in 1995 amounted to $22 billion, continued its burgeoning growth in 1996, with a record high of $30.8 billion. Flows of this type of capital were once again very significant in Argentina, Bolivia, Brazil, Chile, Colombia, Mexico and Peru and, in fact, reached unprecedented levels in Bolivia, Brazil, Chile, Colombia, the Dominican Republic and Peru in 1996. Positive trends also continued in other countries of the region. By contrast, direct investment in Mexico remained more or less unchanged from the preceding year's level ($7 billion) as a consequence of the 1995 financial crisis. Direct investment in Mexico in 1994 was a record $11 billion.

54. Bond issues also continued on the upward trend begun in mid-1995. In the first 10 months of 1996 they totalled $41 billion, a record high, and accounted for nearly half of all developing-country bond placements. These flows were directed primarily towards three countries (Mexico, Argentina and Brazil) and, to a far lesser extent, to Chile, Colombia and Venezuela.

55. In 1996, the region's external debt amounted to $607 billion, with a rate of increase of 3.4 per cent, the lowest since 1991 (see table 10). One of the reasons for this slowdown in the rate of increase was the depreciation of European currencies and the yen vis-à-vis the dollar in 1996, which was reflected in a reduction in the external debt denominated in those currencies. Another factor was a decrease in the nominal debt in several countries, particularly Nicaragua and Venezuela.

56. In an extension of the trend begun in 1987, the region's external debt indicators continued to improve, returning to levels similar to those registered before the debt crisis of the 1980s. Total interest payments, measured as a percentage of exports of goods and services, declined to 14.5 per cent. The reason for this development was that interest payments rose more slowly than exports did. Increases in interest payments were seen primarily in countries whose external debt expanded in 1995.

57. During 1996, important advances were made in the renegotiation of the external debt in a number of heavily indebted Latin American countries. Peru made substantial progress towards normalizing its situation after having declared an external debt moratorium in 1983 by concluding debt rescheduling agreements with the Paris Club, commercial banks and the Russian Federation. The Government of Peru concluded in 1996 a final agreement for the restructuring of its commercial debt under the Brady Plan.

58. In 1996, Nicaragua made major strides towards restructuring its external debt. In December 1995, Nicaragua had bought back 81 per cent of its debt with the commercial banks at 8 per cent of its face value. In 1996, it reached an agreement for the renegotiation of its debt with the Russian Federation. The country was also successful in obtaining the forgiveness of its debts with the Government of Mexico and the Government of Germany. As a result, Nicaragua reduced its external debt by over $4 billion in 1996. Honduras and Guyana also signed agreements to restructure their bilateral debt with the member countries of the Paris Club. During 1996 the region also saw the rescheduling of Panama's debt arrears with commercial banks. Meanwhile, the Government of Cuba maintained informal contacts with its overseas creditors, including the Governments of Spain, France and Japan. Late in the year, Ecuador announced that it would begin talks with the Paris Club to reschedule its bilateral debt as well.

Table 1. Latin America and the Caribbean: main economic indicators

	1993	1994	1995	1996[a]
	Annual rate of change			
Economic activity and prices				
Gross domestic product	3.8	5.3	0.3	3.4
Per capita gross domestic product	2.0	3.5	-1.3	1.7
Consumer prices	887.4	337.4	25.6	19.3
Terms of trade	-1.6	2.0	3.0	0
	Billions of dollars			
External sector				
Exports of goods	157.7	183.7	223.4	248.1
Imports of goods	166.1	197.6	222.0	245.5
Trade balance (goods)	-8.4	-13.9	1.4	2.5
Balance on current account	-43.9	-48.6	-31.9	-32.5
Balance on capital and financial account	56.9	38.5	26.4	49.8
Balance of payments	13.0	-10.1	-5.6	17.3
Total disbursed external debt	513.1	545.4	598.5	607.2

Source: ECLAC, on the basis of information provided by official institutions in the countries.

[a] Preliminary figures.

Table 2. Latin America and the Caribbean: total gross domestic product

(Percentages based on values at 1990 prices)

	Annual growth rate							Average annual rate	
	1990	1991	1992	1993	1994	1995	1996[a]	1981-1990	1991-1996
Region[b]	-0.3	3.4	2.7	3.8	5.3	0.3	3.4	1.1	3.1
Argentina	-0.1	9.5	8.4	5.3	6.7	-4.6	3.5	-0.3	4.7
Bolivia	4.6	5.3	1.6	4.2	4.8	3.7	4.0	0.2	4.0
Brazil	-4.7	0.1	-1.1	4.4	5.7	3.9	3.0	1.3	2.7
Chile	3.3	7.1	10.5	6.0	4.1	8.2	6.5	3.0	7.0
Colombia	3.8	1.6	4.0	5.1	6.3	5.7	3.5	3.7	4.4
Costa Rica	3.5	2.1	7.3	6.0	4.4	2.3	0.5	2.2	3.7
Cuba	-3.2	-10.9	-11.2	-14.7	0.6	2.4	7.0	3.7	-4.8
Dominican Republic	-4.9	0.8	6.7	2.2	4.3	4.7	7.5	2.4	4.3
Ecuador	0.3	5.3	3.7	2.5	4.7	2.7	2.0	1.4	3.4
El Salvador	4.8	3.6	7.5	7.4	6.0	6.1	3.5	-0.4	5.6
Guatemala	3.0	3.7	4.9	4.0	4.1	5.0	3.0	0.9	4.1
Haiti	-0.1	4.9	-13.2	-2.5	-8.4	4.4	2.0	-0.5	-2.4
Honduras	-0.8	2.0	6.3	7.0	-1.3	3.2	3.5	2.4	3.4
Mexico	5.2	4.3	3.7	1.9	4.6	-6.6	4.5	1.9	2.0
Nicaragua	0.0	-0.3	0.9	-0.4	4.0	4.7	5.5	1.5	2.4
Panama	8.0	8.1	7.5	3.8	3.8	1.9	2.0	1.6	4.5
Paraguay	3.0	2.4	1.6	4.1	2.9	4.5	2.0	3.0	2.9
Peru	-5.4	2.8	-0.9	5.8	13.9	7.7	2.0	-1.2	5.1
Uruguay	0.6	3.2	7.8	3.3	6.9	-2.8	5.0	0.0	3.8
Venezuela	7.0	9.7	6.1	0.7	-2.5	2.3	-1.5	-0.7	2.4
Caribbean, subtotal	2.2	1.8	0.7	0.2	2.6	2.1	2.5	0.1	1.5
Antigua and Barbuda	3.5	4.3	1.7	3.4	5.5	-3.8	-6.0	6.4	0.9
Barbados	-3.0	-3.5	-5.6	0.9	3.4	2.6	5.5	1.1	0.6
Belize	10.3	3.1	9.5	4.3	1.5	3.8	3.5	4.5	4.3
Dominica	6.3	2.2	2.7	1.9	2.1	1.8	..	4.4	2.1[c]
Grenada	5.2	3.6	1.1	-1.3	2.3	2.3	3.0	4.9	1.8
Guyana	-5.0	7.9	11.2	8.6	9.4	5.1	6.5	-2.9	8.1
Jamaica	5.4	0.7	1.6	1.5	0.7	0.8	0.0	2.2	0.9
Saint Kitts and Nevis	3.0	3.8	3.6	4.0	3.2	2.0	..	5.8	3.3[c]

	Annual growth rate							Average annual rate	
	1990	1991	1992	1993	1994	1995	1996[a]	1981-1990	1991-1996
Saint Vincent and the Grenadines	7.0	3.1	6.5	1.3	0.4	3.0	3.5	6.5	3.0
Saint Lucia	4.4	2.3	7.1	2.3	2.8	3.8	7.0	6.8	4.2
Suriname	0.1	3.5	5.8	-4.5	-0.8	..	..	0.5	0.9[d]
Trinidad and Tobago	1.4	3.3	-1.4	-1.3	3.9	2.8	3.0	-2.6	1.7

Source: ECLAC, on the basis of official figures, converted into dollars at constant 1990 prices.

Note: Totals and subtotals do not include those countries for which no information is given.

[a] Preliminary estimate.

[b] The figures for the region exclude Cuba.

[c] 1991-1995.

[d] 1991-1994.

Table 3. Latin America and the Caribbean: per capita gross domestic product

(Percentages based on values at 1990 prices)

	Annual growth rate							Average annual rate	
	1990	1991	1992	1993	1994	1995	1996[a]	1981-1990	1991-1996
Region[b]	-2.1	1.5	0.9	2.0	3.5	-1.3	1.7	-0.9	1.1
Argentina	-1.5	8.0	6.9	3.9	5.3	-5.9	2.2	-1.8	3.3
Bolivia	2.3	2.8	-0.8	1.7	2.2	1.3	1.8	-1.9	1.5
Brazil	-6.3	-1.5	-2.6	3.0	4.2	2.5	1.8	-0.7	1.2
Chile	1.6	5.4	8.7	4.2	2.5	6.5	5.2	1.3	5.3
Colombia	1.8	-0.4	2.0	3.1	4.3	3.9	1.7	1.6	2.4
Costa Rica	0.8	-0.4	4.7	3.5	1.9	0.0	-1.7	0.6	1.3
Cuba	-4.0	-11.6	-11.8	-15.2	0.0	1.8	6.5	2.8	-7.6
Ecuador	-2.0	2.9	1.3	0.3	2.5	0.5	-0.3	-1.1	1.2
El Salvador	2.9	1.4	5.0	4.7	3.4	3.6	1.1	-1.4	3.2
Dominican Republic	-6.9	-1.2	4.6	0.3	2.3	2.9	5.4	0.2	2.4
Guatemala	0.1	0.8	1.9	1.1	1.2	2.0	0.2	-2.0	1.2
Haiti	-2.2	2.8	-14.9	-4.4	-10.2	2.3	-0.1	-2.4	-4.3
Honduras	-3.7	-1.0	3.2	3.9	-4.1	0.3	0.4	-0.8	0.4
Mexico	3.3	2.3	1.8	0.0	2.8	-8.2	2.7	-0.2	0.2
Nicaragua	-2.4	-3.0	-2.0	-3.3	1.0	1.7	2.7	-3.9	-0.5
Panama	5.9	6.0	5.5	1.9	1.9	0.1	0.3	-0.5	2.6
Paraguay	0.0	-0.5	-1.1	1.3	0.2	1.8	-0.7	0.0	0.2
Peru	-7.1	0.9	-2.6	4.0	12.0	5.9	0.2	-3.3	3.3
Uruguay	0.1	2.6	7.2	2.7	6.3	-3.3	4.2	-0.6	3.2
Venezuela	4.4	7.1	3.6	-1.6	-4.6	0.1	-3.6	-3.2	0.1
Caribbean, subtotal	1.4	1.0	-0.2	-0.7	1.7	1.2	1.5	-0.9	0.5
Antigua and Barbuda	2.8	3.0	0.4	2.1	4.2	-5.0	-6.6	5.9	-0.4
Barbados	-3.3	-3.9	-6.0	0.5	3.0	2.2	5.1	0.7	0.1
Belize	7.4	0.5	6.7	1.7	-1.1	1.1	0.8	1.9	1.6
Dominica	6.6	2.2	2.7	1.9	2.1	1.8	..	4.8	2.1[c]
Grenada	5.0	3.4	0.9	-1.5	2.1	2.1	2.6	4.7	1.6
Guyana	-5.2	7.2	10.2	7.4	8.4	3.8	5.4	-3.4	7.0
Jamaica	4.9	0.0	1.0	0.8	0.1	0.2	-0.7	1.1	0.2
Saint Kitts and Nevis	3.5	4.3	4.1	4.5	3.7	2.5	..	7.0	3.8[c]
Saint Vincent and the Grenadines	6.0	2.2	5.6	0.4	-0.5	2.1	2.7	5.5	2.0

/...

	Annual growth rate							Average annual rate	
	1990	1991	1992	1993	1994	1995	1996[a]	1981-1990	1991-1996
Saint Lucia	3.0	1.0	5.7	0.9	1.5	2.4	5.6	5.3	2.8
Suriname	-1.1	2.3	4.6	-5.6	-1.9	..	..	-0.7	-0.2[e]
Trinidad and Tobago	0.1	2.1	-2.5	-2.4	2.7	1.7	2.0	-3.9	0.6

Source: ECLAC on the basis of official figures, converted into dollars at constant 1990 prices.

Note: Totals and subtotals do not include those countries for which no information is given.

[a] Preliminary estimates.

[b] The figures for the region include Cuba.

[c] 1991-1995.

[d] 1991-1994.

Table 4. Latin America and the Caribbean: consumer price indexes
(December-December variations)

Country	Average annual rate		Annual growth rate						
	1980-1984	1985-1989	1990	1991	1992	1993	1994	1995	1996[a]
Region	84.4	229.8	1 191.0	199.7	418.0	887.4	336.8	25.5	19.3
Argentina	222.8	444.4	1 343.9	84.0	17.5	7.4	3.9	1.6	0.4[b]
Barbados	10.5	3.9	3.4	8.1	3.4	-1.0	0.5	3.4	2.7[c]
Bolivia	195.6	268.8	18.0	14.5	10.5	9.3	8.5	12.6	9.7[b]
Brazil	121.8	383.3	1 584.6	475.8	1 149.1	2 489.1	929.3	22.0	10.6[b]
Chile	22.1	20.2	27.3	18.7	12.7	12.2	8.9	8.2	6.6[b]
Colombia	22.8	24.0	32.4	26.8	25.1	22.6	22.6	19.5	21.9[b]
Costa Rica	35.5	16.2	27.3	25.3	17.0	9.0	19.9	22.6	14.0[b]
Dominican Republic	12.5	29.2	79.9	7.9	5.2	2.8	14.3	9.2	3.8[a]
Ecuador	24.4	41.5	49.5	49.0	60.2	31.0	25.4	22.8	26.2[b]
El Salvador	13.7	23.2	19.3	9.8	20.0	12.1	8.9	11.4	7.2[b]
Guatemala	5.7	17.0	59.6	10.2	14.2	11.6	11.6	8.6	10.4[b]
Guyana	19.4	18.4	...	...	2.6	...	16.1	8.1	6.7[b]
Haiti	10.5	2.5	26.1	6.6	18.0	39.3	14.4	7.3	16.1[d]
Honduras	9.8	4.9	36.4	21.4	6.5	13.0	28.9	26.8	26.0[b]
Jamaica	16.9	13.9	29.7	80.2	40.2	30.1	26.9	25.5	22.7[e]
Mexico	53.7	77.3	29.9	18.9	11.9	8.0	7.1	52.1	27.8[b]
Nicaragua	30.1	1 674.4	13 490.2	775.4	3.5	19.5	12.5	11.1	9.2[b]
Panama	5.7	0.4	0.8	1.1	1.6	0.9	1.4	0.8	1.0[d]
Paraguay	15.3	25.5	44.1	11.8	17.8	20.4	18.3	10.5	8.8[b]
Peru	82.7	371.8	7 649.6	139.2	56.7	39.5	15.4	10.2	11.9[b]
Trinidad and Tobago	14.7	9.0	9.5	2.3	8.5	13.4	5.5	3.8	3.1[f]
Uruguay	43.3	70.8	129.0	81.3	59.0	52.9	44.1	35.4	25.5[b]
Venezuela	13.0	30.6	36.5	31.0	31.9	45.9	70.8	56.6	109.2[b]

Source: ECLAC, on the basis of information provided by official institutions in the countries.

[a] Figures correspond to the variation in prices during the 12-month period ending in the month indicated.

[b] November 1995-November 1996.

[c] June 1995-June 1996.

[d] September 1995-September 1996.

[e] October 1995-October 1996.

[f] August 1995-August 1996.

Table 5. Latin America and the Caribbean: indexes of the real effective exchange rate for exports[a]

	1980	1985	1990	1991	1992	1993	1994	1995	1996[b]
				Based on consumer price indexes					
Argentina	58.7	94.7	100.0	83.3	77.5	74.0	78.4	87.0	89.0
Bolivia	72.8	50.4	100.0	108.3	116.3	117.6	125.1	126.5	120.5
Brazil	141.7	149.9	100.0	119.7	128.4	113.5	92.6	70.5	65.0
Chile	50.5	71.2	100.0	98.9	95.3	97.5	96.5	92.4	88.1
Colombia	52.2	59.6	100.0	101.0	90.0	85.6	74.8	74.5	71.6
Costa Rica	64.7	90.0	100.0	108.3	103.0	100.4	101.0	98.8	98.9
Dominican Republic	86.0	112.5	100.0	100.6	101.3	96.0	95.4	93.3	90.0
Ecuador	48.4	62.3	100.0	95.2	94.7	83.5	78.2	78.5	80.0
El Salvador	139.0	75.9	100.0	98.4	98.2	88.0	83.9	80.9	75.6
Guatemala	57.0	47.2	100.0	87.9	87.0	88.9	85.1	82.6	82.5
Haiti	82.4	64.6	100.0	94.0	95.2	112.0	91.5	80.4	74.6
Honduras	66.4	53.4	100.0	107.9	102.4	112.5	125.3	112.3	114.7
Mexico	76.2	95.3	100.0	91.1	84.1	79.7	81.9	121.1	109.4
Nicaragua	243.4	70.1	100.0	104.6	105.2	108.3	113.3	118.8	117.1
Paraguay	50.4	80.8	100.0	86.9	90.6	93.9	97.4	106.8	104.3
Peru	220.2	232.6	100.0	82.1	80.9	89.1	84.6	85.6	82.4
Uruguay	59.5	78.0	100.0	88.1	84.1	76.8	76.6	79.4	80.4
Venezuela	45.9	52.2	100.0	93.9	88.5	88.9	92.5	70.6	90.0
				Based on wholesale price indexes					
Argentina	60.4	76.2	100.0	104.8	113.5	114.9	124.3	122.6	118.9
Brazil	158.4	134.0	100.0	123.6	130.0	117.7	99.8	98.6	100.7
Chile	56.0	71.1	100.0	95.3	90.8	93.2	94.0	88.0	83.8
Colombia	61.5	64.4	100.0	99.9	92.4	93.0	85.0	87.4	87.1
Mexico	83.2	95.9	100.0	89.6	82.3	76.7	79.1	113.7	100.7
Venezuela	60.9	59.1	100.0	98.0	95.2	94.3	89.8	69.8	83.9

Source: ECLAC, on the basis of figures supplied by the International Monetary Fund (IMF).

[a] The average of the indexes for the real (main official) exchange rate for the currency of each country against the currencies of its main trading partners, weighted by the relative magnitude of exports to those countries.

[b] Preliminary estimate.

Table 6. Latin America and the Caribbean: exports of goods, fob

(1990 = 100; annual growth rates)

	Value				Unit value				Volume			
	Index	Rate			Index	Rate			Index	Rate		
	1996	1994	1995	1996	1996	1994	1995	1996	1996	1994	1995	1996
Region	182	16.3	21.3	11.0	113	6.6	9.8	1.0	161	9.1	10.7	9.9
Argentina	193	20.8	32.3	13.5	130	1.9	10.1	6.0	148	18.5	20.3	7.1
Bolivia	133	38.8	5.7	6.1	91	15.6	0.5	-3.5	147	20.1	5.2	9.9
Brazil	153	11.3	5.5	3.2	104	6.5	7.9	1.0	148	4.5	-2.3	2.2
Chile	183	26.1	38.2	-6.5	106	12.6	23.9	-13.5	173	12.0	11.5	10.5
Colombia	152	17.8	18.5	3.4	110	15.1	16.0	-2.0	138	2.4	2.2	5.5
Costa Rica	198	12.6	24.0	3.0	133	8.0	14.0	-1.0	149	4.3	8.7	4.1
Dominican Republic	115	26.0	19.1	10.2	111	8.0	14.5	-1.5	104	16.6	4.0	11.8
Ecuador	178	25.5	13.5	10.5	111	13.5	5.9	6.0	159	10.6	7.1	4.2
El Salvador	271	71.2	32.6	5.1	122	29.7	15.1	-5.0	223	32.0	15.3	10.6
Guatemala	165	13.7	39.0	-7.2	124	8.0	16.5	-5.5	133	5.3	19.4	-1.8
Haiti	32	-30.1	84.2	-19.0	78	6.0	10.0	-3.5	41	-34.1	67.4	-16.1
Honduras	152	7.6	41.4	4.8	121	21.6	10.1	-8.5	126	-11.5	28.4	14.5
Mexico	235	17.3	30.6	20.0	126	4.9	5.0	0.5	187	11.8	24.4	19.4
Nicaragua	190	31.5	50.6	19.1	109	18.1	17.0	-6.0	174	11.4	28.7	26.7
Panama	172	10.8	0.9	-4.6	103	1.1	2.1	-6.0	168	9.6	-1.1	1.5
Paraguay	192	24.3	28.1	-6.5	107	8.3	7.0	0.0	180	14.8	19.7	-6.5
Peru	177	29.8	21.9	5.6	113	10.1	12.7	0.5	157	17.9	8.2	5.1
Uruguay	138	10.5	10.1	11.1	115	7.4	10.8	-3.0	120	2.9	-0.7	14.5
Venezuela	129	9.0	17.1	20.9	89	1.5	10.5	11.0	146	7.3	6.0	8.9

Source: ECLAC, on the basis of figures provided by IMF and national agencies.

Table 7. Latin America and the Caribbean: imports of goods, fob

(1990 = 100; annual growth rates)

	Value				Unit value				Volume			
	Index	Rate			Index	Rate			Index	Rate		
	1996	1994	1995	1996	1996	1994	1995	1996	1996	1994	1995	1996
Region	233	18.9	12.3	10.6	110	3.6	7.1	1.0	212	14.8	4.9	9.5
Argentina	600	29.2	-6.7	19.5	113	3.0	8.9	1.0	530	25.4	-14.4	18.3
Bolivia	194	-0.4	14.1	23.9	101	-1.1	0.8	-0.5	192	0.7	13.2	24.5
Brazil	254	31.4	49.4	5.7	101	3.3	13.7	1.0	251	27.2	31.4	4.7
Chile	232	6.9	34.7	11.2	107	3.5	9.4	1.0	217	3.2	23.1	10.1
Colombia	255	21.5	17.0	1.0	88	0.5	9.6	0.0	289	20.9	6.8	1.0
Costa Rica	166	6.2	5.9	1.3	117	3.7	9.0	-0.5	142	2.4	-2.9	1.8
Dominican Republic	178	7.4	22.4	14.3	96	2.5	3.0	0.5	185	4.8	18.8	13.8
Ecuador	208	32.7	24.8	-13.3	122	6.0	9.0	0.0	170	25.1	14.5	-13.3
El Salvador	238	36.3	31.5	-1.7	110	17.2	8.1	-2.0	216	16.3	21.6	0.3
Guatemala	213	6.8	19.1	0.1	113	-1.1	7.6	-0.5	188	8.0	10.7	0.6
Haiti	112	-47.1	268.8	-4.8	96	2.9	6.5	2.0	116	-48.5	246.2	-6.7
Honduras	189	12.3	48.2	8.8	110	8.8	15.3	0.0	172	3.2	28.6	8.8
Mexico	213	21.4	-8.7	22.4	120	5.0	6.0	0.5	178	15.7	-13.8	21.8
Nicaragua	176	19.0	8.6	18.0	117	2.1	7.1	0.0	151	16.6	1.4	18.0
Panama	188	9.7	6.8	-1.8	119	3.4	5.6	0.0	159	6.0	1.1	-1.8
Paraguay	236	30.8	27.4	-14.4	106	-0.4	6.0	-0.5	223	31.3	20.2	-14.0
Peru	266	34.5	38.6	1.4	117	8.1	8.7	1.5	228	24.5	27.5	-5.1
Uruguay	240	22.7	3.2	13.3	113	1.0	9.0	0.5	212	21.5	-5.3	12.8
Venezuela	153	-26.1	36.2	-8.5	105	0.5	9.0	-0.5	146	-26.5	24.9	-8.0

Source: ECLAC, on the basis of figures provided by IMF and national agencies.

Table 8. Latin America and the Caribbean: terms of trade (goods)

(1990 = 100; average annual rates)

	Index									Average annual rate	
	1980	1985	1990	1991	1992	1993	1994	1995	1996	1981-1990	1991-1996
Region	139	105	100	99	99	98	100	103	103	-3.2	0.5
Argentina	154	123	100	102	109	109	108	109	115	-4.2	2.3
Bolivia	134	144	100	98	81	79	93	93	90	-2.9	-1.8
Brazil	120	101	100	105	104	105	108	102	102	-1.8	0.4
Chile	124	91	100	102	101	94	103	116	100	-2.1	-0.1
Colombia	116	101	100	107	109	105	120	127	125	-1.5	3.7
Costa Rica	104	108	100	104	106	105	109	114	114	-0.4	2.1
Dominican Republic	183	151	100	109	102	100	106	118	115	-5.9	2.4
Ecuador	166	142	100	90	88	83	88	86	91	-4.9	-1.6
El Salvador	108	83	100	99	99	97	107	114	111	-0.8	1.7
Guatemala	113	93	100	104	104	98	107	116	110	-1.2	1.6
Haiti	170	154	100	84	80	81	83	86	81	-5.2	-3.4
Honduras	107	87	100	105	99	113	126	121	110	-0.7	1.7
Mexico	150	94	100	101	106	106	106	105	105	-4.0	0.8
Nicaragua	145	112	100	93	68	79	91	99	93	-3.7	-1.1
Panama	107	88	100	98	98	98	95	92	87	-0.7	-2.4
Paraguay	91	82	100	100	99	91	99	100	101	0.9	0.1
Peru	139	95	100	96	95	92	94	97	96	-3.2	-0.6
Uruguay	84	84	100	100	103	98	104	106	102	1.8	0.3
Venezuela	165	139	100	83	79	74	75	76	85	-4.9	-2.7

Source: ECLAC, on the basis of figures provided by national agencies.

Table 9. Latin America and the Caribbean: balance of payments

(Millions of dollars)

	Export (goods)[a]			Imports (goods)[a]			Balance on goods			Balance on services			Balance on goods and services		
	1994	1995	1996[b]	1994	1995	1996[b]	1994	1995	1996[b]	1994	1995	1996[b]	1994	1995	1996[b]
Region	183 715	223 411	248 055	197 583	221 971	245 545	-13 868	1 440	2 510	-11 748	-10 235	-10 510	-25 616	-8 795	-8 000
Argentina	15 840	20 964	23 800	20 076	18 727	22 370	-4 236	2 237	1 430	-2 856	-2 158	-2 530	-7 092	79	-1 100
Bolivia	985	1 042	1 105	1 064	1 215	1 505	-79	-173	-400	-112	-126	-210	-191	-299	-610
Brazil	44 102	46 506	48 000	33 241	49 663	52 500	10 861	-3 157	-4 500	-5 346	-7 495	-8 000	5 515	-10 652	-12 500
Chile	11 604	16 039	15 325	10 879	14 655	16 290	725	1 384	-965	22	-149	-130	747	1 235	-1 095
Colombia	8 754	10 373	10 725	11 040	12 921	13 045	-2 286	-2 548	-2 320	287	90	290	-1 999	-2 458	-2 030
Costa Rica	2 102	2 606	2 685	2 788	2 952	2 990	-686	-346	-305	288	225	155	-398	-121	-150
Dominican Republic	644	767	845	2 276	2 786	3 185	-1 632	-2 019	-2 340	1 299	1 848	1 865	-333	-171	-475
Ecuador	3 844	4 362	4 820	3 282	4 095	3 550	562	267	1 270	-177	-129	-50	385	138	1 220
El Salvador	1 252	1 661	1 745	2 407	3 165	3 110	-1 155	-1 504	-1 365	-57	-65	-65	-1 212	-1 569	-1 430
Guatemala	1 550	2 155	2 000	2 547	3 033	3 035	-997	-878	-1 035	46	-29	100	-951	-907	-935
Guyana	463	496	560	504	537	580	-41	-41	-20	-9	-7	-10	-50	-48	-30
Haiti	57	105	85	141	520	495	-84	-415	-410	-57	-133	-170	-141	-548	-580
Honduras	918	1 298	1 360	1 060	1 571	1 710	-142	-273	-350	-12	-97	-95	-154	-370	-445
Mexico	60 882	79 542	95 450	79 346	72 453	88 685	-18 464	7 089	6 765	-2 604	871	880	-21 068	7 960	7 645
Nicaragua	351	529	630	784	852	1 005	-433	-323	-375	-71	-99	-100	-504	-422	-475
Panama	6 015	6 070	5 790	6 458	6 897	6 770	-443	-827	-980	165	467	695	-278	-360	-285
Paraguay	2 218	2 840	2 655	3 545	4 517	3 865	-1 327	-1 677	-1 210	553	567	630	-774	-1 110	-580
Peru	4 574	5 576	5 890	5 545	7 687	7 795	-971	-2 111	-1 905	-480	-781	-560	-1 451	-2 892	-2 465
Uruguay	1 913	2 106	2 340	2 600	2 682	3 040	-687	-576	-700	450	358	290	-237	-218	-410
Venezuela	16 110	18 870	22 805	8 504	11 580	10 600	7 606	7 290	12 205	-3 086	-3 400	-3 505	4 520	3 890	8 700

Table 9 (continued)

	Current transfers			Balance on income account			Balance on current account			Capital and financial account			Global balance		
	1994	1995	1996[b]	1994	1995	1996[b]	1994	1995	1996[b]	1994	1995	1996[b]	1994	1995	1996[b]
Region	12 053	14 266	14 290	-35 076	-37 389	-38 615	-48 639	-31 918	-32 525	38 532	26 350	49 775	-10 107	-5 568	17 250
Argentina	319	432	400	-2 590	-2 901	-3 500	-9 363	-2 390	-6 200	8 688	180	5 850	-675	-2 210	1 650
Bolivia	267	234	250	-202	-217	-205	-126	-302	-565	76	258	815	-50	-44	250
Brazil	2 423	3 621	3 000	-9 091	-11 105	-10 800	-1 153	-18 136	-20 300	7 696	31 109	26 300	6 543	12 973	6 000
Chile	358	355	410	-1 744	-1 430	-1 710	-639	160	-2 395	3 855	921	3 700	3 216	1 081	1 305
Colombia	862	679	460	-2 062	-2 338	-3 090	-3 219	-4 117	-4 660	3 394	4 479	4 910	175	362	250
Costa Rica	142	134	180	-207	-196	-155	-463	-183	-125	376	412	35	-87	229	-90
Dominican Republic	493	1 001	1 145	-319	-497	-525	-159	333	145	-228	-196	-85	-387	137	60
Ecuador	145	231	248	-1 210	-1 191	-1 365	-680	-822	200	-81	320	-570	-761	-502	-370
El Salvador	1 289	1 369	1 370	-95	-96	-125	-18	-276	-185	131	423	285	113	147	100
Guatemala	449	493	625	-136	-159	-170	-636	-573	-480	595	420	600	-41	-153	120
Guyana	12	39	40	-83	-86	-85	-101	-95	-75	37	6	-5	-64	-89	-80
Haiti	156	505	280	-11	-24	-10	4	-67	-310	-25	260	250	-21	193	-60
Honduras	81	347	275	-255	-73	5	-328	-196	-165	307	70	75	-21	-126	-90
Mexico	4 011	3 965	4 465	-12 362	-12 579	-13 110	-29 619	-654	-1 000	11 753	-14 652	1 700	-17 666	-15 306	700
Nicaragua	241	75	95	-468	-359	-300	-728	-706	-680	-55	-496	190	-783	-1 202	-490
Panama	221	227	220	-461	-454	-450	-518	-587	-515	116	681	665	-402	94	150
Paraguay	12	44	40	-12	6	0	-756	-1 060	-540	1 084	1 087	645	330	27	-95
Peru	606	491	550	-1 695	-1 837	-1 555	-2 540	-4 238	-3 470	4 044	3 776	5 110	1 504	-462	1 640
Uruguay	41	32	45	-343	-173	-170	-439	-359	-535	677	568	710	238	209	175
Venezuela	-83	111	235	-1 896	-1 746	-1 680	2 541	2 255	7 255	-3 871	-3 270	-1 210	-1 330	-1 015	6 045

Source: ECLAC, on the basis of information provided by IMF and national agencies.

[a] Including the maquila sector.

[b] Preliminary ECLAC estimates.

[c] Excluding Guyana.

/...

Table 10. Latin America and the Caribbean: total disbursed external debt[a]

(Millions of dollars and annual growth rates; year-end balances)

	1980	1985	1990	1991	1992	1993	1994	1995	1996[b]
Region	220 444	379 244	443 049	446 523	462 653	513 063	545 389	598 483	607 230
Argentina	27 162	49 326	62 233	58 413	59 123	67 802	79 345	89 679	96 000
Bolivia	2 340	3 294	3 768	3 582	3 784	3 777	4 216	4 523	4 740
Brazil	64 000	105 126	123 439	123 910	135 949	145 726	148 295	159 200	175 000
Chile	11 207	20 043	18 576	17 319	18 964	19 665	21 768	21 736	21 545
Colombia	6 805	14 063	17 848	17 312	16 862	18 370	21 280	23 431	26 150
Costa Rica	2 209	4 140	3 924	3 992	3 992	3 827	3 818	3 794	3 700
Cuba	..	..	..	..	..	8 795	9 083	9 162	..
Dominican Republic	2 173	3 720	4 499	4 614	4 413	4 559	3 924	4 001	3 950
Ecuador	4 167	8 111	12 222	12 802	12 795	13 631	14 589	13 934	14 700
El Salvador	1 176	1 805	2 076	2 102	2 338	1 988	2 069	2 243	2 485
Guatemala	1 053	2 536	2 487	2 403	2 252	2 086	2 160	2 107	2 050
Guyana	449	1 308	1 812	1 873	2 054	2 062	2 000	2 058	..
Haiti	290	600	841	809	873	866	875	901	915
Honduras	1 388	3 034	3 588	3 441	3 539	3 904	4 152	4 372	4 300
Jamaica	1 734	3 355	4 152	3 874	3 678	3 687	3 652	3 452	3 855
Mexico	50 700	97 800	101 900	114 900	114 000	127 500	136 500	161 000	160 000
Nicaragua	1 825	4 936	10 616	10 312	10 806	10 987	11 624	10 242	6 100
Panama	2 271	3 642	3 795	3 699	3 548	3 494	3 663	3 710	5 000
Paraguay	861	1 772	1 670	1 637	1 249	1 218	1 240	1 328	1 310
Peru	9 595	13 721	19 996	20 787	21 409	26 370	29 282	32 061	32 300
Trinidad and Tobago	911	1 763	2 520	2 438	2 215	2 102	2 064	1 905	1 850
Uruguay	1 165	3 551	4 472	4 141	4 136	4 293	4 605	4 852	5 050
Venezuela	26 963	31 238	36 615	32 163	34 674	36 404	35 185	38 692	36 230

Source: ECLAC, on the basis of official figures.

[a] Including borrowings from IMF.

[b] Preliminary figures. Totals do not include those countries for which no information is given.

UNITED
NATIONS

E

Economic and Social Council

Distr.
GENERAL

E/1997/44
16 April 1997

ORIGINAL: ENGLISH

Substantive session of 1997
Geneva, 30 June-25 July 1997
Item 10 of the provisional agenda*

REGIONAL COOPERATION

Summary of the survey of economic and social conditions in Asia and the Pacific, 1997

EXECUTIVE SUMMARY

The Economic and Social Survey of Asia and the Pacific, 1997, examines the opportunities and challenges that the ESCAP region faces as it approaches the twenty-first century in the light of the emerging globalization and regionalization processes. These are ongoing processes, driven by a host of technology- and market-related factors, national policy changes focused on greater liberalization and deregulation, and international measures aimed at increasing the transparency of international transactions.

Data on growth of trade, investment and finance attest to intensified globalization. For example, the value of trade in goods and services rose to 27 per cent of world GDP in 1993, compared with 11 per cent in 1971. Foreign direct investment (FDI) outflows as a proportion of world GDP doubled between 1980 and 1994. Developing countries in the ESCAP region have increased their share of world trade, private financial flows and foreign direct investment. At the same time, there has been an intensification of intraregional linkages, as reflected in enhanced intraregional trade and investment flows. For the developing countries in the ESCAP region, as a group, the trend towards intensified participation in globalization and regional processes is likely to continue into the twenty-first century.

The variations in the level and speed of integration are partly explained by differences in initial conditions measured by per capita income, size of

* E/1997/100.

97-10407 (E) 050597 070597

/...

the population, growth rate, level of savings and investment, fiscal balance, inflation, adult literacy, infant mortality, life expectancy and rank in the human development index. The least developed, the Pacific island countries and the economies in transition, are at a disadvantage because those initial conditions adversely affect their performance in trade, their capacity to attract private external finance and FDI, and the development of their transport and communications infrastructures.

The present report notes that in the light of differences in initial conditions and the consequent variations in the benefits and risks of participation in globalization and regionalization, policy responses have to be tailored to each country's unique condition. However, some generalizations can be made concerning actions required at the national, regional/subregional and international levels in order to optimize the benefits of developing countries.

At the national level, the policies have to focus, inter alia, on both internal and external macroeconomic balances, the soundness of the financial sector, a greater role for the private sector, coupled with an appropriate legal framework and enforcement mechanisms to prevent anti-competitive behaviour, extended coverage and improved quality of health and educational services, greater flexibility in labour markets, support for technological upgrading, and choice of appropriate speed and sequencing of liberalization measures along with provision for social safety nets to minimize the hardships of adjustment and restructuring.

Among the various measures that could be taken at the regional/ subregional levels are: intensification of trade liberalization; trade facilitation; policy coordination to bring about greater convergence in inflation, interest rates and tax levels; harmonization of investment incentives; exploration of the possibilities of the multi-country, commodity futures markets and multi-country bonds and stock markets; collaboration in research and development; and cooperation to add missing linkages in transport and telecommunications and to harmonize systems and procedures for cross-border movement of cargo and fleets.

At the international level, the actions suggested include accelerating official financial and technical assistance to the disadvantaged groups of countries to improve their initial conditions; full implementation of the Uruguay Round of multilateral trade agreements and market access for products of export interest to developing countries in the region - for example, textiles and clothing; ensuring that issues such as labour welfare, environment and human rights are not misused as non-tariff barriers; avoidance of the use of anti-dumping practices as a protective device; improvement in preferential market access schemes for products of particular interest to the disadvantaged groups of countries through the widening of product coverage, reduction of procedural complexity and avoidance of frequent changes; and actions by home countries to encourage their transnational corporations to undertake investment in those countries that have failed in the past to attract such investment.

CONTENTS

		Paragraphs	Page
INTRODUCTION		1 - 3	4
I.	EMERGING GLOBAL TRENDS AND THE ESCAP REGION	4 - 20	4
	A. Foreign trade flows	5 - 7	4
	B. External finance	8 - 12	5
	C. Prospects	13 - 20	6
II.	SOCIO-ECONOMIC TRENDS AND PROSPECTS IN THE ESCAP REGION	21 - 30	7
III.	TRADE AS A VEHICLE FOR INTEGRATION AND GROWTH	31 - 37	12
IV.	EXTERNAL FINANCIAL AND INVESTMENT INFLOWS	38 - 43	17
V.	TRANSPORT AND COMMUNICATIONS	44 - 46	20
VI.	CONCLUSIONS AND POLICY IMPLICATIONS	47 - 85	21
	A. National level	48 - 65	21
	B. Regional/subregional levels	66 - 75	25
	C. International level	76 - 85	26

Tables

1. Selected aspects of socio-economic development in the ESCAP region 9

2. Rate of change of values of exports and imports of goods, ranked on a 1990-1995 average 14

3. Developing economies in the ESCAP region, FDI inflows, 1984-1995 . 18

INTRODUCTION

1. The Economic and Social Survey of Asia and the Pacific, 1997 examines the opportunities and challenges that the ESCAP region faces as it approaches the twenty-first century in the light of the emerging globalization and regionalization processes. These are ongoing processes, driven by a host of technology- and market-related factors, national policy changes focused on greater liberalization and deregulation, and international measures aimed at increasing the transparency of international transactions.

2. Globalization and regionalization have intensified in recent years, and the momentum is likely to continue into the next millennium. While the more open policy stance adopted by developing countries attests to their voluntary participation, many of the factors driving these processes are beyond the control of individual developing countries. They have little choice other than to participate, since an insular approach is likely to further marginalize them. Therefore, the key policy question that developing countries in the region will have to address is how to optimize the benefits of participation in the emerging international division of labour in order to promote their national development objectives.

3. Against this backdrop, the Survey is organized as follows: chapter I briefly describes how the developing ESCAP region fares in the emerging global scene; chapter II shows the recent performance of individual countries in terms of selected macroeconomic and social development indicators which impinge on participation in the globalization and regionalization processes; chapters III and IV analyse the benefits and risks of integration into the international and regional economy focusing on foreign trade and external finance (including FDI). Chapter V deals with transport and communications, assessing achievements of economies in the region and their capacities to establish international linkage. Finally, chapter VI indicates certain policy directions for consideration at the national, regional/subregional and international levels.

I. EMERGING GLOBAL TRENDS AND THE ESCAP REGION

4. The trends associated with globalization are more easily quantifiable in terms of data on flows of trade, investment and finance. Data on these variables clearly show a tremendous growth over the past three decades and demonstrate growing economic interaction and interdependence.

A. Foreign trade flows

5. The value of trade in goods and services combined rose to 27 per cent of world GDP in 1993, compared with about 11 per cent in 1971. The underlying rates of growth in trade in goods and services have thus been faster than the rate of growth in world GDP during the period. The services trade as a proportion of world GDP more than doubled between 1971 and 1993, whereas merchandise trade increased by about 1.5 times. Growth in merchandise trade has been associated with a growing share of manufactured products in total trade.

These trends towards a rising proportion of the world output entering world trade are the clearest and most frequently quoted indicator of globalization.

6. It is noteworthy that developing countries in the ESCAP region have vigorously participated in this process, outperforming other developing countries. This is clearly brought out by the fact that developing countries' share of world trade in goods and services increased by a factor of 1.5 between 1971 and 1994, whereas the share of developing countries in the ESCAP region more than doubled. In the case of services, their performance was even better, as their share tripled over the same period. Developing countries in the ESCAP region account for most of the increase in the developing countries' share of manufactured exports.

7. There was a notable increase in intraregional trade. For example, intraregional exports of merchandise among developing countries in the region grew from about a quarter of their total merchandise exports in 1980 to nearly two fifths in 1995.

B. External finance

8. In recent years, developing countries, particularly those in Asia and the Pacific, have become progressively more integrated with international financial and capital markets. Over the 10-year period from the mid 1980s to the mid 1990s, world stock market capitalization rose threefold, from US$ 4.7 trillion to $15.2 trillion. During the same period, capitalization in emerging markets, which included a number of developing Asian markets, rose from less than 4 to 13 per cent of total world capitalization. The value of shares traded on emerging markets increased from less than 3 per cent of the $1.6 trillion world total in 1985 to 17 per cent of the $9.6 trillion value of shares traded on all of the world's exchanges in 1994. International investors have increasingly participated in this rapid development of emerging stock markets. Portfolio flows of equity investment to emerging markets rose to $39 billion in 1995 from a mere $100 million in 1985.[1] The share of developing countries in international equity issues rose from 14 per cent in 1990 to 35 per cent in 1995, largely due to the increase in issues originating in South and South-East Asia.[2]

9. FDI outflows in 1995 amounted to 1.2 per cent of world GDP and 7.6 per cent of world merchandise trade. However, these flows as a proportion of world GDP and global gross fixed capital formation doubled between 1980 and 1994. Notwithstanding its small relative size, FDI has a significant impact on world production and trade. The value-added of affiliates of transnational corporations accounted for 6 per cent of world GDP in 1991, having risen from 2 per cent in 1982. The intra-trade among the companies and their affiliates accounted for 40 per cent of world trade in industrial goods.[3]

10. In the area of FDI, developing countries in the region have become active participants as well. They increased their share of world inflows from an average of under 9 per cent during the period 1984-1989 to 21 per cent in 1995, and the share of total inflow to developing countries rose from 45 to 66 per cent over the same period. Their share of outflows rose from 4 to

13 per cent of the world total and from 68 to 88 per cent of the developing countries' total. Developing countries in the region have thus increased their importance as both recipients and sources of FDI.

11. Overall, net external resource inflows to developing countries from private sources increased from $25 billion in 1987 to $167 billion in 1995. The developing Asian countries increased their share of these flows from 19 per cent in 1987 to 62 per cent in 1995.[4]

12. The active participation of developing countries in the region in the global flows has been accompanied by substantial increases in intraregional flows. Intraregional sources from among developing economies have assumed greater importance in FDI. For example, for the economies of China, Hong Kong, Indonesia, Malaysia, the Philippines, the Republic of Korea, Singapore, Taiwan Province of China and Thailand, the share of the inward stock from among themselves increased from 25 per cent in 1980 to 37 per cent in 1993.[5]

C. Prospects

13. There are always many uncertainties about any prediction of the future. Nevertheless, there are several factors which suggest that the trend towards intensified participation by developing countries in the ESCAP region in the globalization and regionalization processes is likely to continue into the twenty-first century.

14. First, despite a notable increase in intraregional trade among developing countries in the region, the share of their merchandise exports absorbed by developed market economies remains high (53 per cent in 1994). The export potential of the region is therefore significantly dependent on the absorption capacity of developed market economies, which, in turn, is partly dependent on growth prospects. The available projections indicate that those economies will grow by over 2 per cent into the twenty-first century, well above the actual achievement of 1.5 per cent during the period 1991-1995.

15. Secondly, projections of world trade into the twenty-first century are promising. The World Bank forecasts a 6.3 per cent annual increase in the volume of world merchandise trade over the period 1996-2005.[6] The International Monetary Fund projects an annual average growth rate of 7 per cent in the volume of world trade in goods and services over the period 1998-2001.[7]

16. Given the demonstrated ability of countries in Asia and the Pacific to benefit from growing international trade, the above projections augur well. In fact, the World Bank projects that the export volume of goods and non-factor services of South Asia will increase by 7.3 per cent annually over the period 1996-2005 and that of East and South-East Asia by 10.1 per cent.

17. Thirdly, prospects for private financial flows appear favourable. Moderate international interest rates, which are likely to result from lower inflationary expectations and continued fiscal consolidation in industrial countries, would imply lower yields in those countries. The consequential pressures to diversify portfolios will favour the ESCAP region because of higher growth prospects and

the expected continuation of liberalization and deregulation of financial sector policy regimes.

18. Fourthly, FDI inflows should continue to be promoted by the per capita incomes in developing countries of the region, which are rising at higher rates than in the rest of the developing world, and increasing competition in the industrial as well as the developing countries and the resultant pressures on their transnational firms to locate abroad in search of reduced production cost and the strong likelihood of further liberalization of trade and investment policies in developing countries of the region.

19. Similarly, the prospects for regional cooperation in trade and investment are likely to be sustained and possibly to gather stronger momentum. In part, this would be due to rising income and per capita consumption, overall export growth, moderate inflation and modest current account deficits projected for South, East and South-East Asian countries.[6] To some extent, it can be anticipated that there will be a further intensification of regional cooperation within the various institutional arrangements currently in existence. Moves in this direction are already visible, in which various subregional cooperation organizations, such as the Association of South-East Asian Nations (ASEAN), the South Asian Association for Regional Cooperation (SAARC), the Economic Cooperation Organization (ECO) and the Asia-Pacific Economic Cooperation forum (APEC), play an important role.

20. The ESCAP region now extends to 37 per cent of the world's land area and contains 62 per cent of its population. It offers in itself a vast market. Estimates currently put more than a billion people in the region, a number that far exceeds the total population of all the developed countries of the world, with per capita incomes of more than $10,000. Such figures signify the region's market potential at present and, given the prospects of future expansion noted above, there will be immense opportunities for strengthening intraregional economic linkages.

II. SOCIO-ECONOMIC TRENDS AND PROSPECTS IN THE ESCAP REGION

21. Developing countries in the ESCAP region as a group have been able to enhance their integration with the international economy and forge closer regional linkages in terms of trade and financial flows, including FDI. However, this achievement is not equally shared by all countries. The variations in the level and speed of integration are partly influenced by several variables related to macroeconomics and social development. The recent performance of developing countries in the ESCAP region with respect to some key variables is presented in table 1. There is not necessarily a correlation between a country's achievement in terms of these indicators and the level or the speed of integration with the global or regional economy. There are a number of other policy and structural variables which determine a country's willingness and ability to achieve integration.

22. Nevertheless, it can be hypothesized that the indicators listed in table 1 would have a significant influence. For example, the level of per capita income together with population size is a major indication of a country's market size,

which, in turn, is an important determinant of a country's ability to attract FDI. A similar comment also applies to the growth rate of GDP, as foreign investors generally take into account both the size of the market and its growth potential in decisions concerning investment locations. These considerations are particularly important for domestic market-oriented FDI. The elements of macroeconomic balance and stability, such as inflation, fiscal deficits and current account deficits (which reflect the gap between domestic savings and investment) are widely acknowledged to affect foreign trade and external financial inflows through their effects on interest rates, exchange rates, rates of return on investments and credit ratings, among others.

Table 1. Selected aspects of socio-economic development in the ESCAP region

Country or area[a]	Per capita GDP/GNP (US$), 1995	Population (millions), 1995	Annual average GDP growth rate, 1991-1995	Savings rate (% of GDP), 1995	Investment rate (% of GDP), 1995	Budgetary balance/ GDP (%), 1991-1995	Average annual inflation rate), 1991-1995	Adult literacy rate (%), 1995	Infant mortality rate (per 1,000), 1994	Life expectancy at birth (years), 1994	Rank in HDI value,[b] 1993
Japan	40 740	125.2	1.3	32.0[c]	30.0[c]	-0.7	1.4	95+	4	79.0	1
Singapore	29 990	3.0	8.5	52.0	33.2	4.7	2.6	91	5	75.0	6
Hong Kong	23 130	6.2	5.5	32.6	34.9	1.8	9.3	92	5	78.0	4
Australia	19 260	18.0	2.6	19.0[c]	20.0[c]	-2.8	2.5	95+	6	77.0	2
New Zealand	16 220	3.5	1.7	24.0[c]	21.0[c]	0.0	2.1	95+	7	76.0	3
Brunei Darussalam	15 950[c]	0.3	1.5	..	..	..	2.4[d]	88	8[e]	75.0	7
Republic of Korea	10 160	44.8	7.5	36.7	37.1	-0.3	6.2	95+	12	71.0	5
Malaysia	4 240	19.9	8.6	37.2	40.6	-0.3	4.1	83	12	71.0	10
Thailand	2 810	59.4	8.5	36.5	43.1	2.9	4.8	94	36	69.0	9
Turkey	2 670	61.9	3.4	23.0[c]	22.0[c]	-5.1[d]	80 4	82	62	67.0	14
Russian Federation	2 340	147.0	-10.5	29.0[c]	27.0[c]	-10.4[f]	589.9	99[e]	19	64.0	11
Fiji	2 170	0.8	2.4	18.1[c]	12.2[c]	-3.6	3.9	92	23[e]	72.0	8
Iran (Islamic Republic of)	1 720	67.3	5.8	25.1	16.5	-1.1[d]	29.0	72	47	68.0	12
Tonga	1 720	0.1	3.8	-12 8[e]	17 4[e]	..	5.0	..	19[b]	67[b]	..
Kazakstan	1 560	17.1	-14.4	20[c]	24[c]	-2.9[f]	1 068.3	98[e]	27	68.3	13
Turkmenistan	1 390[e]	4.1	-9.9	..	..	2.4[f]	1 306.8[d]	98	46	66.3	17
Tuvalu	1 330[c]	0.01	6.7	..	..	..	2.6	..	.	..	..
Papua New Guinea	1 180	4.3	7.6	23.4[e]	23.8[e]	-3.8	7.3	72	65	57	31
Vanuatu	1 150[c]	0.2	2.7	9.5[e]	34.2[e]	-6 0[f]	3.8	65[e]	47[b]	60	29
Maldives	1 070	0.2	6.5	..	..	-12.2	15.2	93	58	62	25
Philippines	1 050	67.6	2.2	14.7	22 3	0.6	10.5	95	40	65	20
Indonesia	1 010	195.8	7.8	35.8	37.8	0.3	8.9	84	53	63	23
Uzbekistan	970	22.8	-3.7	24[c]	23[c]	-10.2[f]	722.8	97[e]	28	69.8	19
Samoa	890	0.2	0.5	23.4	..	-24.7	5.7	98[e]	64[f]	69	15
Kyrgyzstan	850	4.7	-12	14[c]	30[c]	-12.4[f]	545.1	97[e]	29	67.8	22
Solomon Islands	800[c]	0.4	5	..	..	-18.9[d]	11.4	62[e]	42[b]	62	28
Azerbaijan	730	7.6	-17.1	4[c]	23[c]	-7.1[f]	847.9	96[e]	25	69.4	21
Kiribati	730[e]	0.1	2.3	..	..	..	..	..	65[b]	61.0	..
Sri Lanka	720	18.4	5.4	15.9	25.7	-7.8	10.3	90	16	72	16
Armenia	660	3.6	-13	-19[c]	10[c]	-23.7[f]	1 579.6	99[e]	15	71.1	18

Country or area[a]	Per capita GDP/GNP (US$), 1995	Population (millions), 1995	Annual average GDP growth rate, 1991-1995	Savings rate (% of GDP), 1995	Investment rate (% of GDP), 1995	Budgetary balance/ GDP (%), 1991-1995	Average annual inflation rate), 1991-1995	Adult literacy rate (%), 1995	Infant mortality rate (per 1,000), 1994	Life expectancy at birth (years), 1994	Rank in HDI value,[b] 1993
China	570	[*]	11.3	42.3	39.5	-0.9	11.6	81	30	69.3	26
Tajikistan	470	6.1	-16.4	..	..	-17.2[f]	789.9	97[e]	41	66.6	24
Pakistan	450	130.7	4.9	15.7	18.7	-7.2	11.3	38	92	60	33
Mongolia	380	2.4	-2.6	15.9	24.7	-6.8	127.2	82[e]	53	64.5	27
India	370	935.7	4.8	25	26.6	-6.2	10.2	52	70	62	34
Lao People's Democratic Republic	360	4.9	6.4	..	..	-4.7[j]	11.1	57	92	52	36
Cambodia	290	10.2	5.9	8.3	21.5	-5.3	65	35[e]	115	52	38
Viet Nam	260	74.5	8.2	19	27.1	-3.4	23.5	94	37	67.5	30
Bangladesh	240	120.4	4.1	7.7	16.6	-5.7	4.2	38	81	57	35
Myanmar	235[c]	46.5	5.9	12.2	13	-2.5	27.1	83	80	58	32
Nepal	210	21.9	4.7	10.3	20.2	-5.9	11.2	27	95	54	37
Bhutan	170	1.6	5.2	36	54.5	-0.5	11	42	122[e]	50.7[g]	39

Sources: ESCAP, 1995 ESCAP Population Data Sheet (Bangkok, 1995); United Nations, World Population Prospects: The 1994 Revision (United Nations publication, Sales No. E.95.XIII.16); United Nations, Monthly Bulletin of Statistics, various issues; United Nations, World Urbanization Prospects: The 1994 Revision (United Nations publication, Sales No. E.95.XIII.12); United Nations Development Programme, Human Development Report (New York, Oxford University Press), various issues; World Bank, Social Indicators of Development 1996 (Baltimore, Johns Hopkins University Press, 1996); Asian Development Bank, Key Indicators of Developing Asian and Pacific Countries 1996 (Oxford, Oxford University Press, 1996); Asian Development Bank, Asian Development Outlook (Hong Kong, Oxford University Press), various issues; Food and Agriculture Organization of the United Nations, FAO Production Yearbook 1994 (Rome, 1995); International Monetary Fund (IMF), tape No. 9302JF; IMF, International Financial Statistics, vol. XLIX, No. 9 (September 1996) (Washington, D.C., 1996); World Bank, World Tables 1995 (Baltimore, Johns Hopkins University Press, 1995); and United Nations Economic Commission for Europe, Economic Survey of Europe (New York and Geneva), various issues.

[a] Listed in order of per capita income levels from the highest to the lowest.

[b] The ranks are based on descending order of Human Development Index (HDI) value, estimated in UNDP, Human Development Report, 1996.

[c] 1994.

[d] 1991-1994.

[e] 1993.

[f] 1992-1995.

[g] 1992.

[h] Most recent estimate between 1989-1994.

[i] 1991-1993.

[j] 1990-1995.

23. Participation in globalization processes requires a healthy and educated population. For example, a country with poor health conditions cannot be expected to maintain the level of productivity required of its workforce in order to preserve and enhance its competitiveness in the global economy. The development, acquisition and diffusion of modern technology requires a critical mass of skilled workers and scientific, technical, research and management personnel. Indicators related to health and education are thus an important part of the initial conditions that are likely to impinge on a country's ability to integrate with the global and the regional economies.

24. As is evident from data in table 1, there are striking differences among countries in the region. The least developed countries, as expected, have low levels of per capita income. Most of them also have small populations. All Pacific island countries have small populations. In many of them, the observed level of per capita income may not be sustainable with declining aid flows.

25. Rates of economic growth have been rapid in most economies of East and South-East Asia. Their performance has earned the region the reputation of being the most dynamic in the world. Their rapid growth has been associated with high rates of domestic savings and investment, better fiscal balance, and generally well-managed monetary and exchange rate regimes to ensure domestic and external stability, reflected in generally low rates of domestic inflation and smaller savings/investment gaps. These economies are also characterized by high rates of participation in international trade, as expressed by the ratio of imports and exports to GDP. Their economic and social achievements have raised their international credit standing to such a degree that it induces very substantial private investment and financial flows. The countries within this group which were lagging behind, such as the Philippines, and even the least developed among them, such as Cambodia and the Lao People's Democratic Republic, have lately improved their performance.

26. In South and South-West Asia, rates of economic growth have tended to accelerate with the recent implementation of macroeconomic and structural reforms, though no firm trend has yet been established. Further reform and liberalization of policies in various areas are on the agenda of most Governments, with the objectives of, inter alia, promoting domestic savings, investment and exports, ensuring better budgetary balance, and containing inflation. High rates of inflation have been a major concern, especially in the Islamic Republic of Iran and Turkey. In India, Pakistan and Sri Lanka, inflation rates remain relatively high, despite considerable moderation in recent years.

27. Rates of growth, with a few exceptions, have remained low in the region's least developed economies and the small island economies of the Pacific. The overall progress in effecting structural change and strengthening the infrastructural and institutional base has remained inadequate.

28. The problems faced by the economies in transition in their move from central planning to market orientation are still daunting, despite some recent success in containing inflation and arresting negative growth. These countries have yet to develop effective institutional structures to suit the needs of a well-functioning market economy. During the whole period 1991-1995, all these

countries experienced severe contraction of total and per capita incomes amid hyper-inflationary situations. Only during the past couple of years have some of the economies shown signs of positive growth and moderating inflation.

29. Data in table 1 suggest that social development indicators, such as adult literacy, infant mortality and life expectancy, closely correspond to per capita income. This correspondence is also visible if the countries' ranks in terms of per capita income levels are compared with the ranks in terms of the Human Development Index (HDI), a composite index that the United Nations Development Programme has been calculating over the past several years. The exceptions are the former socialist countries, where relatively higher levels of health and educational standards were achieved in the past. These, however, have become difficult to sustain, owing to faltering growth.

30. The challenges facing the different groups of countries in the region are thus of very different orders of magnitude and, in some cases, of a somewhat different nature. The countries lagging behind, especially the least developed, the Pacific islands and the transition economies, have considerable headway to make in order to join the regional mainstream and the global economy. That would require tremendous national efforts from these countries, but their success would also depend greatly on special support from the international community.

III. TRADE AS A VEHICLE FOR INTEGRATION AND GROWTH

31. The integration of individual countries within the international and regional economies widens opportunities for their national development but also poses some risks. Those benefits and costs are not uniform for all countries in the region, especially because of wide variations in initial conditions briefly reviewed in the chapter above. Nevertheless, certain generalizations can be made.

32. In the context of the benefits, development literature until recently focused largely on international trade. The static gains of trade stem mainly from greater specialization, higher allocative efficiency, wider access to production factors (such as capital equipment) and intermediate and consumer goods at lower prices, and greater opportunities to exploit the economies of scale. It is being increasingly recognized that no less significant are the dynamic gains. These arise, inter alia, from increased competition, stepped-up technological upgrading, enhanced acquisition of knowledge, either through imports or learning on the job, and reduced incidence of rent-seeking activities. These gains contribute to accelerated growth.

33. Trade stimulates economic growth through several other channels. There is often a positive relationship between a country's trade intensity and its attractiveness for inflow of FDI. Trade necessitates the development of transport and communications networks which accelerate the growth of non-traded output. Furthermore, a greater involvement in trade induces a pursuit of macroeconomic stability and improved economic governance, which are increasingly acknowledged as basic prerequisites of growth.

34. Similar comments also apply to intraregional trade, which has the additional advantage that the "psychic distance" between countries located within a region may be shorter because of similarities in, inter alia, culture, legal codes, ethnic ties and distribution systems. Thus, new trading opportunities can be created. In addition, regional cooperation may induce faster liberalization of trade policies.

35. That participation in international trade has been an important contributory factor to the accelerated growth of several economies in the Asian and Pacific region, especially those in East and South-East Asia, is beyond question. It is pertinent to note that China, Hong Kong, Malaysia, Singapore, Thailand and Viet Nam consistently achieved export growth rates well over the world average during the 1980-1995 period (see table 2). From the perspective of the trade-growth nexus, a particular concern relates to the performance of the least developed countries and the Pacific island economies, many of which exhibit low or negative growth rates in exports. In some of these cases, the apparently high growth rates are due to a low base.

Table 2. Rate of change of values of exports and imports of goods, ranked on a 1990-1995 average

	Exports, fob				Imports, cif		
	1980-1984	1985-1989	1990-1995		1980-1984	1985-1989	1990-1995
World	-0.9	9.3	6.8*	World	-0.7	9.4	6.4*
ESCAP developing economies	5.9	13.7	14.6	ESCAP developing economies	5.2	13.4	15.0
Marshall Islands	29.2	-3.3	69.7	Myanmar	-7.495	-3.33	43.2
Cambodia	6.9	37.9	60.4	Cambodia	17.86	1.446	41.08
Lao People's Democratic Republic	14.48	7.784	34.5	Malaysia	6.785	11.79	23.25
Myanmar	-10.24	-5.184	27	Lao People's Democratic Republic	15.3	3.369	23.11
Malaysia	7	9.78	19.77	Viet Nam	7.8	8.4	20.9
Viet Nam	3.484	31.25	19.21	Thailand	3.835	22.6	18.59
China	8.597	16.31	19.2	Hong Kong	8.627	20.54	17.86
Thailand	3.741	22.96	18.88	Philippines	5.79	13.27	17.15
Singapore	5.658	14.23	17.85	Indonesia	7.854	4.982	17.01
French Polynesia	2.412	27.79	16.86	Singapore	5.205	12.86	16.69
Bangladesh	6.773	7.648	16.33	Cook Islands	1.25	16.42	16.03
Sri Lanka	9.513	1.992	16.08	Nepal	5.516	7.857	15.8
Solomon Islands	8.797	-3.111	16.02	Maldives	17.79	20.31	15.77
Hong Kong	9.9	21.3	15.6	Brunei Darussalam	3.1	6.8	15.6*
Nepal	20.21	6.011	15.49	Sri Lanka	2.033	3.835	15.11
Philippines	-2.041	8.801	14.86	China	7.841	19.5	15
Cook Islands	2.083	2.762	14.17	Republic of Korea	8.745	15.58	14.6
Papua New Guinea	-2.9	8.4	13.9	Tuvalu	2.1	4.3	13.*
Republic of Korea	13.94	17.11	12.7	Taiwan Province of China	3.06	20.43	12.15
Indonesia	-2.12	0.899	12.75	Kiribati	2.731	6.43	11.14

/...

	Exports, fob				Imports, cif		
	1980-1984	1985-1989	1990-1995		1980-1984	1985-1989	1990-1995
India	4.494	10.57	11.76	Bangladesh	11 65	5.838	10.9
Pakistan	1.192	13.29	9 602	India	0.925	6.207	9.899
Tonga	17.32	4.278	9.5	Marshall Islands	9.573	14.41	9.712
Taiwan Province of China	11.69	19.49	9 294	Pakistan	2.412	4 358	8.768
Kiribati	74.22	7.636	8.552	Fiji	-4.748	6.198	7.8
Iran (Islamic Republic of)	9.4	0.6	7.8*	Solomon Islands	1.191	9.745	6.404*
Fiji	-7.7	8.7	5.9	Tonga	2.2	6.0	6.4
Vanuatu	10.1	-9.543	5.16	Vanuatu	-0.4	1.3	6.0
Brunei Darussalam	-8.191	-8.177	4.857*	Bhutan	10.82	9 341	5.342*
Samoa	8.115	-6.098	4.594	Samoa	-5.415	9.467	5.159
Maldives	23.02	20.4	3 517	French Polynesia	-0.534	8.979	4.669
Bhutan	2.316	41.65	0 367*	Papua New Guinea	-1.289	7 466	0.9
Mongolia	8.068	5.897	-0 502	New Caledonia	-8.875	20.7	0.868
New Caledonia	-12.02	34.18	-4.967	Iran (Islamic Republic of)	9.6	-1 7	0.7*
Tuvalu	38.3	1.0	-8.3*	Mongolia	9.729	4 938	-4.424
Afghanistan	-1.2	-16.7	..	Niue	-8.3	10.0	..
American Samoa	16.27	9.177	..	Nauru	-3.2	9.7	..
Nauru	-8.8	4.7	..	Micronesia (Federated States of)	0.4	16	..
Guam	17.29	0.795	..	Guam	16.88	-1	
				American Samoa	42 67	5 999	..
				Afghanistan	13.79	-8.776	..
Other members of ESCAP in Asia and the Pacific	6.711	10.17	10.79	Other members of ESCAP in Asia and the Pacific	0 51	9 778	10.19
Russian Federation	..	..	11.9	Turkey	8 21	8.451	17.51
Turkey	27.01	11.21	11.03	New Zealand	3.539	7 825	8.602

	Exports, fob				Imports, cif		
	1980-1984	1985-1989	1990-1995		1980-1984	1985-1989	1990-1995
Japan	7.289	10.21	8.371	Japan	-0.748	9.598	8.483
New Zealand	0.476	10.55	7.683	Australia	5.004	12.13	5.6
Australia	1.599	10.44	6.228	Russian Federation	..	..	6.1

Sources: ESCAP secretariat calculations, based on United Nations, Monthly Bulletin of Statistics, vol. L, No. 9 (September 1996); International Monetary Fund International Financial Statistics Yearbook 1995 and International Financial Statistics, vol. XLIX, No. 11 (November 1996) (Washington, D.C.); Asian Development Bank, Key Indicators of Developing Asian and Pacific Countries 1996.

* 1990-1994.

36. Although the positive impact of trade on growth is widely accepted, there is a divergence of views regarding its impact on equity. However, there is a certain degree of consensus that trade is likely to alleviate absolute poverty through rapid expansion in output and employment in labour-intensive export industries and related activities and through an increase in real wages for labour, which is the primary asset that poor households possess. The success of several East and South-East Asian economies in greatly reducing absolute poverty is, to a significant extent, attributable to their trade performance.

37. In the light of the above, it appears that trade can contribute to faster growth and greater alleviation of poverty. The development experience of several economies in the region also bears this out. However, due cognizance should be taken of some of the risks associated with international trade. There is the risk that the economy may become subject to greater instability, particularly in situations where exports are concentrated in a few products or countries. Greater participation in trade also inevitably entails greater liberalization of the trade policy regime, with implications for the transitional costs of adjustment and restructuring. Another problem is that participation in international trade would require adherence to international policy norms, especially those envisaged under the Uruguay Round. That imposes a measure of constraint on national policy choices. In a world of shifting comparative advantage, a country may run the risk of becoming locked into areas of trade with slow growth potential in the long run. In the case of trade promoted under regional cooperation initiatives, there is an additional risk of loss due to trade diversion.

IV. EXTERNAL FINANCIAL AND INVESTMENT INFLOWS

38. A major pillar of globalization and regionalization is international financial and capital flows. It is obvious that access to these flows relieves a country's foreign exchange constraint and thereby expands its capacity to import. In most developing countries, the ability to produce intermediate and capital goods is relatively weak. Domestic investment and production levels are therefore substantially dependent on import capacity. A major problem that is associated with such flows is their volatility, which, in turn, may cause instability in macroeconomic parameters such as the exchange rate, the price level and the interest rate. The benefits of access to international financial flows are therefore largely conditioned by a country's ability to deal with such negative impacts.

39. Most developing countries, including those in the ESCAP region, are clearly demonstrating a much more positive attitude towards FDI. Data on FDI inflows to individual economies are presented in table 3. The data clearly show that the least developed, the Pacific island and the Central Asian countries have not generally been able to attract much FDI.

Table 3. Developing economies in the ESCAP region, FDI inflows, 1984-1995

(Millions of United States dollars)

	Annual average							
	1984-1989	1990-1994	1990	1991	1992	1993	1994	1995 (estimate)
Asian least developed countries								
Bangladesh	1	7	3	1	4	14	11	125
Cambodia	..	31	..	..	33	54	69	80
Lao People's Democratic Republic	1	29	6	8	9	60	60	75
Maldives	3	7	6	7	7	7	8	9
Myanmar	1	3.2	5	..	3	4	4	10
Nepal	1	5	6	2	4	6	7	8
East Asia								
China	2 282	16 062.2	3 487	4 366	11 156	27 515	33 787	37 500
Hong Kong	1 422	1 596.8	1 728	538	2 051	1 667	2 000	2 100
Republic of Korea	592	818.4	788	1 180	727	588	809	1 500
South-East Asia								
Brunei Darussalam	..	5.6	3	1	4	14	6	7
Indonesia	406	1 693	1 093	1 482	1 777	2 004	2 109	4 500
Malaysia	798	4 173.6	2 333	3 998	5 183	5 006	4 348	5 800
Philippines	326	756.8	530	544	228	1 025	1 457	1 500
Singapore	2 239	4 681.8	5 575	4 879	2 351	5 016	5 588	5 302
Thailand	676	1 788	2 444	2 014	2 116	1 726	640	2 300
Viet Nam	2	39 4	16	42	24	25	100	150
South and South-West Asia								
India	133	269 4	162	141	151	273	620	1 750
Iran (Islamic Republic of)	-62	-113.8	362	23	170	-50	-10	-30
Pakistan	136	322.4	244	257	335	354	422	600
Sri Lanka	36	115	43	48	123	195	166	195

/....

	Annual average							
	1984-1989	1990-1994	1990	1991	1992	1993	1994	1995 (estimate)
Turkey	245	716 4	684	810	844	636	608	1 037
North and Central Asia								
Armenia	..	1.6	.		.	..	8	10
Azerbaijan	..	0		.		..	..	110
Kazakstan	..	87		.	100	150	185	284
Kyrgyzstan	..	2	.	..	.	..	10	15
Mongolia	..	5.6	..	2	8	8	10	10
Tajikistan	..	2		.	.	..	10	15
Uzbekistan	..	27	..	..	40	45	50	115
Pacific Islands								
Fiji	17	45 8	80	15	50	49	35	35
New Caledonia	2	16 2	31	3	17	20	10	10
Papua New Guinea	123	130 8	155	203	291	1	4	15
Samoa	..	4 6	7	3	5	5	3	3
Solomon Islands	5	14 2	10	15	14	15	17	17
Tonga	..	1	..	..	1	2	2	2
Vanuatu	8	24 2	13	25	26	27	30	25

Sources: United Nations Conference on Trade and Development, World Investment Report 1996: Investment, Trade and International Policy Arrangements (United Nations publication, Sales No E.96.II A.14).

40. FDI adds to a country's capital stock and production capacity, and there is a growing appreciation that the more important benefits of FDI lie in its potential to contribute to faster growth through spill-over effects. Foreign investors typically use improved production technology. Faced with tougher competition, domestic producers may be encouraged to adopt similar technological standards. Better management practices usually employed by foreign investors may be emulated by domestic producers. Furthermore, foreign investors often have better market connections, either through intra-firm channels or arms-length contacts. They can thus improve a country's export performance by developing and marketing new export products as well as by increasing the exports of traditional products.

41. In several East Asian and South-east Asian countries, FDI has been an important factor in promoting exports and accelerating growth. In countries such as Malaysia, Singapore and Thailand, foreign investors have played a large, if not dominant, role in exports of manufactured products, either through wholly-owned investments or joint ventures. China, which has emerged as the largest recipient of FDI among developing countries, has also benefited substantially from it.

42. Depending on the size of a given economy, FDI may make a significant contribution to employment. An increasingly important feature of FDI is the relocation of production of the labour-intensive components of the value-added chain to developing countries. Insofar as FDI causes a net increase in the employment of unskilled and semi-skilled labour, it makes a positive contribution to poverty alleviation.

43. As with the case of trade, there are some risks associated with FDI. It generates a stream of outflows of profits and other payments and may thus exacerbate foreign exchange constraints, especially when foreign investments are not in export-oriented sectors. In some situations foreign investments may be of an enclave nature, with few forward or backward linkages and, hence, few spill-over benefits. In addition, unrestricted access to FDI may subject domestic producers to premature competition. In addition, they may evade payment of taxes to the host country through transfer-pricing mechanisms.

V. TRANSPORT AND COMMUNICATIONS

44. There is increasing recognition of the importance of an infrastructure, particularly for transport and communications, for sustained economic growth. The mounting concerns that growth rates in some of the fast-growing economies of the region may slow down owing to infrastructural bottlenecks have added weight to this perception. There are considerable variations among countries in the region with respect to the state of development of various modes of transport and of communications. The least developed and Pacific island countries and the economies in transition are again at a disadvantage. There are also significant gaps in transport linkages (particularly in roads and railways) which need to be filled up urgently in order to promote regional integration.

45. Transport and communications contribute to growth as facilitators of trade and investment, both domestic and foreign. Transport cost has long been

acknowledged as a natural barrier to trade. Improved access to transport facilities and reduced transport costs would relax this barrier and have a positive impact on trade. Foreign investors take the development of transport facilities into account as a major element in their decisions regarding investment location. This factor is becoming more important with the increasing trade orientation of transnational corporations. Similarly, the availability of dependable communications facilities at reasonable prices is assuming greater importance as a determinant of a country's competitiveness. The rapidity with which information on production capacity, product quality and suppliers' capability can be transmitted to prospective buyers abroad is a crucial element in striking trade deals. Foreign investors need communications facilities in order to be able to maintain close contacts with their affiliates elsewhere or with their parent offices. Investment in transport and communications spurs the growth of non-traded sectors by increasing the flexibility in the pattern of production, distribution and consumption of goods and services within the domestic economy and by developing forward and backward linkages among various sectors.

46. It is evident that investment in transport and communications directly creates new employment opportunities during the process of construction as well as during maintenance. A great deal of such employment involves unskilled and semi-skilled labour. Additional employment opportunities are created through the growth-propelling impact of transport and communications. Absolute poverty may thus be alleviated.

VI. CONCLUSIONS AND POLICY IMPLICATIONS

47. As noted above, the benefits and risks of globalization and regionalization are not uniform for all countries, especially because of differences in initial conditions. At the same time, any attempt at insulation is likely to be fraught with the risk of greater marginalization. Therefore, specific policy responses have to be suited to each country's unique condition. With this in mind, the present section makes some generalizations concerning possible action for consideration at the national, regional/subregional and international levels in order to optimize developing countries' benefits.

A. National level

48. Effective participation in the globalization process requires stability in the basic macroeconomic parameters of price level, exchange rate and interest rate. It is well known that high and variable inflation rates deter economic growth and accentuate distributional inequities. These also affect a country's ability to participate in international trade or to attract FDI. For example, high inflation rates would cause an increase in production costs. That would erode a country's competitive advantage and undermine incentives to export. Similarly, wide fluctuations in exchange rates adversely affect export performance. The volatility of financial flows is often aggravated by variations in the domestic interest rate. Macroeconomic instability generates uncertainties with respect to returns on investment and thus adversely affects both domestic and foreign investment.

49. At the same time, the task of macroeconomic management is rendered more complicated by exposure to the global economy. For example, an increase in the interest rate to contain inflation may induce large inflows of short-term funds, causing an appreciation in the exchange rate, with adverse effects on exports. Furthermore, these inflows can aggravate inflationary pressure the containment of which provided the initial justification to increase the interest rate. Thus, it would be increasingly important to monitor the behaviour of macroeconomic parameters and fine-tune the combination of monetary, fiscal and exchange-rate policy instruments to achieve the desired stability. At times, it is even necessary to adopt administrative measures, at least temporarily, without eroding confidence in fundamental orientation to openness.

50. Fiscal deficits are often a major source of macroeconomic instability. Developing countries in the region face a dilemma in respect of fiscal balance. On the one hand, they have to reduce the rates of taxes, particularly those on business income and imports, in order to improve their competitiveness. On the other hand, large public investments are required for the provision of goods and services which are characterized by externalities or other market failures. Among these are health, educational and infrastructural services. In order to address this dilemma, these countries will have to pay greater attention to better tax collection and improved tax administration. It will be necessary to widen the tax base, particularly by focusing on consumption taxes. Many countries in the region have taken measures along these lines by introducing reforms in tax administration and adopting value-added taxes.[6] In this context, the need for reform of public enterprises, which in many countries are a major source of fiscal drain, deserves emphasis. In some cases, privatization of such enterprises may have to be accelerated. A stricter application of the criterion of social rate of return will have to be applied to governmental expenditure, including expenditure on defence, which has risen significantly in several countries.

51. Reforms and liberalization associated with globalization and regionalization may worsen the current account deficit. Liberalization of import policies eases the accessibility of imported consumer goods and reduces their relative prices. Import bills may thus rise. Such liberalization can increase the overall propensity to consume and slow down the accumulation of domestic savings. Easier access to foreign savings may temporarily finance the resultant savings/investment gap, which has a mirror image in the current account deficit, but the rising current account deficit may not be sustainable in the long run. It is therefore important to adopt countervailing measures to ensure that domestic savings are not adversely affected. This possibility appears to be a matter of concern for some countries in the region. In Thailand, for example, the Government recently announced the introduction of a civil service pension fund and state enterprise provident funds to increase domestic savings.

52. In a globalized economy, the viability and stability of the financial sector are crucial for effective intermediation of international finance. Therefore, it becomes increasingly important to ensure a healthy financial system. In particular, the banking system has to be strengthened through appropriate capital adequacy requirements, loan-loss provisions and improved prudential supervision. This assumes greater urgency because, under liberalized

financial-sector policy regimes, commercial banks may become more vulnerable, for several reasons - inter alia, the increasing importance of market-based securities in their portfolios, easier entry of new banks and greater freedom for banks to determine interest rates and choose customers.

53. The relationship between the private and the public sectors needs to be fundamentally redefined. In an open and liberal environment, the Government's role becomes primarily one of creating an enabling environment for the private sector to play the leading role in production and marketing. In some instances, Governments may have to take proactive measures for the development of the private sector. Thus, new institutional relationships between the private the public sectors have to be developed. The private sector has to be given greater role in policy design, but at the same time it must not be allowed to capture the regulatory authority of the Government to the detriment of public interest.

54. Governments will have to pay greater attention to a more efficient and transparent administrative and institutional set-up for effective economic governance. It is necessary to establish the appropriate legal framework and enforcement mechanisms to prevent predatory practices and anti-competitive behaviour by both domestic and foreign producers. At the same time, it has to be ensured that a maze of red tape and stifling regulations does not hamper private sector initiatives.

55. Effective participation in the integration process requires a healthy and educated workforce. The need to staff new institutions of various sorts arises. A greater priority will therefore have to be given to human resources development. Improvement in the quality of health and educational services and an extension of their coverage will assume greater importance. In countries with low primary school enrolment ratios and large masses of illiterate adult populations, such as in South Asia, the extension of quality basic education has to receive higher priority. In other cases, where basic education has been available universally for some time, greater attention has to be paid to secondary, tertiary, vocational and technical education. In view of the budgetary implications of expanded public expenditure on human resources development, the scope for recovery of costs, wherever possible, should be explored.

56. Greater flexibility in labour markets is required in order for entrepreneurs to respond to emerging changes in the trading and investment environment. However, there exists a dilemma in ensuring flexibility in labour markets. The wider access to information strengthens the demand for security of employment, higher wages and other standards of labour welfare applied in developed countries. Thus, countries will have to find ways to strike a balance between the need for flexibility and the avoidance of industrial disputes which policies to introduce flexibility might induce. One measure which could possibly moderate potential disputes is the provision of adequate safety nets.

57. The maintenance of competitiveness in trade necessitates continuous monitoring of international trading conditions and finding niches for the development of new products. It also requires application of improved technologies to reduce production costs and improve the quality of existing

export products. Hence, there is a need for training and retraining of labour, research and development, and enhancement of institutional capacity within the governmental machinery to design and implement a system of incentives to encourage the private sector to respond to emerging changes.

58. As noted above, participation in the globalization process necessarily implies greater liberalization of trade regimes, with the potential threat of disrupting domestic industries. The speed and sequencing of liberalization measures, encompassing both tariff and non-tariff instruments, has to be carefully chosen in light of the unique conditions obtaining in individual countries without compromising compliance with international obligations.

59. The choice of appropriate speed and sequencing can smooth the transition. Nevertheless, reforms and liberalization associated with globalization and regionalization are likely to create some unemployment and labour displacement, at least in the short term. Moreover changes in relative prices may severely affect some groups. For example, withdrawal of input subsidies and removal of controls on output prices in the agricultural sector may raise food prices and aggravate absolute poverty. Thus, targeted safety-net measures need to be put in place.

60. Many developing countries in the region have traditionally used measures such as subsidies, tax breaks, support for research and development, directed credit and tariff and non-tariff protection to diversify export baskets. The obligations under the Uruguay Round impose a degree of constraint on the application of some of these measures. It will therefore be important to understand fully the implications of the Uruguay Round of Agreements with a view to determining the extent and nature of the flexibility available to national Governments and design policy regimes accordingly.

61. The widening and deepening of financial and capital markets is also an important requirement. In this context, it is worth noting that bond markets in the region remain extremely underdeveloped. Although some countries have experienced rapid growth in stock markets, many of those markets do not have adequate depth or breadth. The thinness of those markets, coupled with substantial foreign participation, makes them more vulnerable to fluctuations in international financial flows. Therefore, attention has to be paid to increasing the depth and breadth of those markets while ensuring that confidence in them is retained through appropriate regulatory frameworks and enforcement mechanisms.

62. One of the risks associated with FDI is that it involves future payment obligations to outside entities, thus exerting pressure on the balance of payments. It is therefore necessary to adopt policies that encourage reinvestment of profits and investment in export-oriented sectors. The maintenance of macroeconomic stability and the design of an incentive structure consistent with international obligations may help in these respects to some extent. Additionally, these considerations could be built into agreements with transnational corporations, especially in the case of large projects. The implementation of such projects is usually contingent on substantial negotiations between host countries and transnational corporations.

63. Host countries have to adopt policies that encourage forward and backward linkages between FDI and the rest of the economy in order to maximize the spillover benefits, including technology transfer. The whole range of incentive and performance requirements traditionally employed by many developing countries to achieve this has to be carefully reviewed in light of developments in the international arena, particularly with respect to trade-related aspects of intellectual property rights (TRIPs) and trade-related investment measures (TRIMs). The necessary adjustments have to be made in such a way as to allow spillover benefits to be maximized without violating obligations to the World Trade Organization (WTO) or creating impediments to the inflow of FDI. To deal with some of the other negative consequences of FDI mentioned above, an appropriate legal and regulatory framework has to be established or strengthened with respect to such matters as competition, safety in workplaces, environmental standards and transfer pricing. In cases of investment in sectors with tendencies to give rise to natural monopolies, some regulatory authority may have to be maintained over output volume, quality and pricing decisions. In parallel, enforcement mechanisms have to be strengthened.

64. The extension, maintenance and technological upgrading of the transport and communications infrastructure, so vital to integration with the international and regional economies, will require substantial resources. The countries in the region will therefore have to adopt alternative financing strategies since the traditional reliance on public sector funding will no longer be adequate. Those strategies should include private-sector provision of these facilities through such mechanisms as build/operate/transfer (BOT) and build/own/operate (BOO). Some countries in the region have already achieved substantial success in this respect.

65. The transport and communications sectors are often characterized by externalities and economies of scale and have a tendency to give rise to monopolies. Governments, therefore, will have to strengthen their regulatory capacity to ensure the fulfilment of such objectives as expanded coverage, improved quality and reasonable prices.

B. Regional/subregional levels

66. The measures needed at the national level have to be complemented by many actions at the regional/subregional levels, some of which are discussed below.

67. Regional cooperation arrangements, other than ASEAN, do not seem to have made much progress in trade liberalization. The efforts in this direction need to be further intensified while ensuring that the measures adopted will lead to net trade creation. Furthermore, regional cooperation initiatives should strive towards a reasonable degree of equity in the distribution of gains among participating countries so as to maintain cohesiveness among partner countries.

68. In order to complement trade liberalization efforts, greater attention has to be paid to trade facilitation through such measures as harmonization of customs classifications, documentation requirements, product standards and environmental and health regulations.

69. Regional/subregional cooperation arrangements could view respective regions/subregions as a single market space for investment. That would require, in addition to trade liberalization and facilitation measures, greater convergence among participating countries in inflation rates, interest rates and tax levels. More frequent dialogue among finance ministries and central banks could facilitate such convergence.

70. The provision of incentives to attract foreign investment is common among developing countries in the region. Sometimes, these are tantamount to "beggar-thy-neighbour" policies. Closer collaboration among countries at the regional/subregional levels could help avoid revenue losses and other types of losses through greater harmonization of incentives.

71. There could be greater collaboration in providing risk coverage for foreign exchange transactions and for mutual defence when the exchange rate of a participating country is under strain. An initiative towards these ends has been recently launched by a few central banks in East and South-East Asia, following the Mexican crisis.

72. As countries increasingly integrate with the global and the regional economies, there arises the need for frequent travel by prospective buyers, sellers, investors, joint venture partners and others in connection with trade and investment. Efforts should therefore be made to ease visa requirements for business travel.

73. There is scope for more serious consideration of the possibilities of establishing multicountry commodity futures markets as well as multicountry bond and stock markets, export credit arrangements and insurance guarantee schemes.

74. Research and development are becoming increasingly characterized by economy of scale. There is thus a need for greater regional/subregional cooperation in research and development by pooling financial, human and technical resources to promote products of interest to participating countries, either as exports or imports.

75. Regional/subregional arrangements should explore ways to fill up gaps in transport and communications. They could also produce initiatives to harmonize systems and procedures for cross-border movements of cargo and fleets.

C. International level

76. The international community will have to preserve and improve the environment for developing countries to participate in the globalization/regionalization processes effectively. Some of the ways in which this can be done are suggested below.

77. The majority of the least developed and Pacific island countries and the economies in transition have not yet been able to participate meaningfully in the globalization/regionalization processes. This is, in part, because a minimum threshold of development is required before a country can actively partake of the opportunities in international trade or flows of capital. The

initial conditions in these countries, characterized by low levels of per capita income, domestic savings and investment, make it unlikely that these countries will be able to reach that threshold on their own and to avail themselves of the benefits of globalization/regionalization. They will continue to need strong support in terms of official development assistance (ODA) for some time to come. The declining trend in ODA should be urgently reversed.

78. The above-mentioned groups of countries as well as some of the other developing countries will require considerable technical assistance with training, the establishment of a regulatory framework and the development of institutional set-ups. There is thus a great need for stepped-up technical assistance to those countries, including assistance from developing countries in a position to provide it.

79. A major way in which the international community can assist developing countries is to ensure full implementation of the Uruguay Round and market access for the exports of those countries. In this context, particular mention should be made of textiles and clothing. The Asian and Pacific region accounts for more than 40 per cent of world exports of clothing, and for many individual countries in the region, textiles and clothing represent as much as a quarter of manufactured exports. Another matter of concern for some developing countries in the region is that agricultural trade liberalization as a result of the Uruguay Round is likely to be minimal.

80. There is a growing tendency to link issues such as labour welfare, environment and human rights to trade policies. This tendency has introduced considerable uncertainty in the trading environment. It is important to ensure that such issues are not misused as non-tariff barriers against developing countries.

81. Several Asian countries, such as China, India, Indonesia, Malaysia, the Republic of Korea and Thailand, have been targeted for anti-dumping actions by developed countries at one time or the other. Although the Uruguay Round has introduced several features to reduce the protectionist elements of anti-dumping, they have been diluted by other provisions. The use of anti-dumping measures as a protective device should be strongly discouraged, particularly because many developing countries may find it difficult to seek relief through costly dispute settlement procedures. In some instances, some developed countries use their national laws to practise, in effect, managed trade in order to secure a bilateral trade balance. Such practices should be avoided.

82. The implementation of the Uruguay Round would cause erosion in the margins of preferences under the generalized system of preferences (GSP), the Lomé Convention and other arrangements. This reinforces the need for avoidance of any non-price restrictions on market access for the exports of developing countries.

83. At the same time, consideration should be given to improvement of GSP and other preferential market access schemes for products of particular interest to the least developed countries, the Pacific island countries and the economies in

transition through the widening of product coverage, the reduction of procedural complexities and the avoidance of frequent changes in schemes.

84. Concerned by the problems faced by the least developed countries, the WTO Ministerial Conference, held in Singapore from 9 to 13 December 1996, adopted the WTO Plan of Action for the Least Developed Countries. The Plan recognizes the need for diversification of the least developed countries' exports and provides for, inter alia, duty-free access to their exports on an autonomous basis. The Plan of Action should be implemented urgently.

85. Home countries of transnational corporations could play a role in encouraging foreign investment in developing countries, particularly on behalf of those that have failed in the past to attract such investment. They could, for example, help to correct misconceptions by disseminating information on the fundamental economic conditions of the host countries, organize investment forums and trade fairs, and provide insurance cover for non-commercial risks. They could also assist by actively pursuing bilateral investment treaties and agreements to avoid double taxation.

Notes

[1] Asli Demirgüç-Kunt and Ross Levine, "Stock markets, corporate finance, and economic growth: an overview", The World Bank Economic Review, vol. 10, No. 2 (May 1996), p. 223.

[2] United Nations Conference on Trade and Development, Trade and Development Report, 1996 (United Nations publication, Sales No. E.96.II.D.6).

[3] United Nations Conference on Trade and Development, World Investment Report 1996, Investment, Trade and International Policy Arrangements: Overview (UNCTAD/DTCI/32 (Overview)) (New York and Geneva, 1996).

[4] World Bank, World Debt Tables, 1994-1995, vol. I; and World Debt Tables, 1996 (Washington, D.C., 1994 and 1996).

[5] Based on United Nations Conference on Trade and Development, World Investment Report 1995 (New York and Geneva, 1995).

[6] World Bank, Global Economic Prospects and the Developing Countries (Washington, D.C., 1996).

[7] International Monetary Fund, World Economic Outlook (Washington, D.C., October 1996).

[8] For a more detailed examination of changes in tax policies and efforts towards improved tax administration, see ESCAP, Issues and Experiences in Tax System Reforms in Selected Countries of the ESCAP Region (ST/ESCAP/1,564).

UNITED
NATIONS

E

Economic and Social Council

Distr.
GENERAL

E/1997/45
28 April 1997

ORIGINAL: ENGLISH

Substantive session of 1997
Geneva, 30 June-25 July 1997
Item 10 of the provisional agenda*

REGIONAL COOPERATION

Summary of the survey of economic and social developments in the ESCWA region, 1996-1997

CONTENTS

		Paragraphs	Page
I.	OVERALL ECONOMIC PERFORMANCE	1 - 40	4
II.	DEVELOPMENTS IN INTERNATIONAL TRADE AND PAYMENTS	41 - 55	13
III.	MONEY, FINANCE AND BANKING	56 - 72	17
IV.	FOREIGN DIRECT INVESTMENT	73 - 80	20
V.	STATUS OF WOMEN	81 - 90	22
Table.	Socio-economic indicators for the ESCWA region, 1994-1996		26

* E/1997/100.

97-11310 (E) 070597

EXECUTIVE SUMMARY

The gross domestic product (GDP) of the ESCWA region, excluding Iraq, is estimated to have registered a 4.8 per cent growth rate in 1996, compared with 2.2 per cent in 1995. The region's GDP per capita registered a 2.1 per cent growth rate, the first positive growth recorded in several years. This was mainly due to the performance of the economies of the Gulf Cooperation Council (GCC) countries. The GDP of the GCC countries as a group is estimated to have grown by 4.9 per cent in 1996, more than four times the 1.1 per cent growth rate it achieved the previous year. Moreover, the GDP growth rate in each of the six GCC countries in 1996 was higher than its 1995 level. Among the region's more diversified economies, only Egypt and the Syrian Arab Republic achieved GDP growth rates in 1996 that were higher than their 1995 respective levels.

The economic outlook for the ESCWA region in 1997 will greatly depend on: the international prices of oil; the speed of implementation of economic reform in member countries; the developments in the Middle East peace process; and Iraq's return to the international oil market and the lifting of the sanctions on Iraq. The ESCWA region's GDP is projected to grow by 4.3 per cent in 1997.

The major factor behind the acceleration of GDP growth in the region in 1996, particularly in the GCC countries, was the 20.3 per cent increase in oil prices. The average price per barrel in 1996 was $20.29, compared with $16.86 in 1995. Despite the fact that oil production remained unchanged at around the 1995 level of 16 million barrels per day, oil revenues in the region increased by $16.4 billion and totalled $96.5 billion. Given the important role of the oil sector in most member countries, the largely unexpected significant increase in oil revenues had very favourable effects on the internal and external balances of the region as a whole.

Several ESCWA member countries were able to reduce their respective ratios of budget deficit to GDP in 1996. They included Egypt, Kuwait, Saudi Arabia and the United Arab Emirates. Bahrain is also reported to have registered a small budget surplus in 1996.

Economic reforms continued in most of the countries in the region, but the process has tended to lose momentum in some GCC countries, mainly because of the unexpectedly large oil revenue windfall.

High unemployment rates remained a major problem in the region. The highest unemployment rate was in the West Bank and Gaza Strip (28 per cent), followed by Yemen (25 per cent). In Egypt and Jordan, estimates show a relatively high rate of around 13 per cent in both countries. The Syrian Arab Republic also suffered from high unemployment but at lower rates than those estimated for Egypt and Jordan. Although GCC countries are all labour-receiving countries, unemployment has been rising among the indigenous population in some of them.

The inflation rates in most ESCWA member countries were, in general, at internationally acceptable levels in 1996. The rates in the more diversified economies, however, tended to be considerably higher than those reported for the GCC countries. For example, Jordan's inflation rate, estimated at 6 per cent, was the lowest among the more diversified economies but was still higher than the highest rate, 4 per cent, reported (for the United Arab Emirates) among the GCC countries.

Estimates indicate that the region's exports increased by 15 per cent during 1996, while imports increased by 9 per cent. The GCC countries' exports, which are estimated at $117.4 billion and which accounted for 89 per cent of the region's total exports, witnessed a 16 per cent increase in 1996. Meanwhile, the ESCWA member countries with more diversified economies recorded an estimated increase of exports of 5.6 per cent. The region's imports are estimated to have increased from $93.3 billion in 1995 to $101.8 billion in 1996. Preliminary estimates regarding the region's current account balance indicate that the overall deficit decreased significantly, from $8.7 billion in 1995 to $1.4 billion in 1996, mainly owing to a better trade balance resulting from higher oil exports.

Total external debt of ESCWA member countries, excluding Iraq, is estimated to have dropped by around 4 per cent, to $175 billion in 1996 from $182 billion in 1995. This drop was caused partly by rescheduling and forgiveness of parts of the debt of a number of member countries, such as Egypt, Jordan and Yemen, and partly by repayment of debt by others, such as Kuwait.

Most stock markets in the ESCWA region performed better in 1996 than many emerging markets in other developing regions. While the aggregate index of the markets in other developing regions was estimated to have dropped by around 8 per cent in 1996, that of stock markets in the ESCWA region was estimated to have risen by around 12 per cent. The improved economic performance of most ESCWA member countries in 1996 was reflected in a rise in activities in their respective stock markets. Moreover, the rise in overall liquidity in the economies of most ESCWA member countries enabled many corporations to approach the stock market to raise private capital.

The inflow of foreign direct investment to the ESCWA region remained very limited, with Egypt and Saudi Arabia receiving the bulk of such inflows. Member countries have recently started creating a more conducive investment climate by promulgating new investment laws and adopting measures that aim at attracting private foreign and local investment.

The achievements of women in the ESCWA region in education, health and employment have been encouraging, compared with the 1970s. However, their participation in public life, power-sharing, decision-making and politics has been below aspirations. Inasmuch as legal awareness and the empowerment of women are concerned, much more is needed to overcome existing hurdles, alleviate poverty and/or achieve self-reliance, financial independence and security, in its broadest sense.

I. OVERALL ECONOMIC PERFORMANCE

1. The overall economic performance of the ESCWA region improved significantly in 1996. The region's gross domestic product (GDP), excluding Iraq, is estimated to have registered a growth rate of 4.8 per cent in real terms. This rate is more than twice the 2.2 per cent growth rate registered in 1995 and yields a positive 2.1 per cent per capita real GDP growth in the region. The region had registered negative per capita real GDP growth rates during the previous several years.

2. In nominal terms and excluding Iraq, the ESCWA region's GDP was estimated to have totalled $353.3 billion in 1996, up by 10.1 per cent from the $320.8 billion it registered in 1995. The region's per capita nominal GDP was estimated at $2,828 in 1996, up from $2,638 in the previous year. Per capita GDPs vary greatly between Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) and the more diversified economies (Egypt, Iraq, Jordan, Lebanon, the Syrian Arab Republic, the West Bank and the Gaza Strip, and Yemen) as well as among themselves. In 1996, per capita GDP was estimated at $8,906 for the GCC countries as a group, ranging from $17,092 in the United Arab Emirates to $6,758 in Oman. For the group of countries with more diversified economies, per capita GDP was estimated at $1,192 for 1996, ranging from $3,975 in Lebanon to $679 in Yemen, the region's least developed country.

3. Major factors that contributed to the acceleration of economic growth and development in the region in 1996 include the significant rise in oil revenues of most of the member countries and the introduction and acceleration of economic reforms in many countries of the region. The region's economic growth could have been even greater in 1996 had it not been for several adverse factors. The major factors that hindered growth were the unstable political situation caused by the stalling of the Middle East peace process; the Israeli attacks on Lebanon; the closure of the borders of the West Bank and the Gaza Strip; and the continued United Nations economic sanctions on Iraq, imposed since August 1990.

4. The marked impact of the oil price increase on overall economic performance in 1996 is evident. In 1995, oil prices recorded an increase of 8.6 per cent compared with 1994. In 1996, the average price per barrel increased by 20.3 per cent over 1995, from $16.86 per barrel to $20.29 per barrel. In fact, oil prices in 1996 were the highest since 1990, when the Organization of Petroleum Exporting Countries (OPEC) crude oil basket price averaged $22.26 per barrel.

5. Oil revenues of the ESCWA region in 1996 were estimated to have totalled $96.5 billion. This is an increase of $16.4 billion over 1995 revenues, representing an increase of 20.4 per cent over the previous year, despite oil production remaining unchanged at around the 1995 level of 16 million barrels per day (mbd). The region's oil revenues in 1996 were the highest recorded in more than a decade. More than 93 per cent of the increase in the region's oil revenues in 1996 accrued to the GCC countries, which include some of the world's

major oil-exporting countries - namely, Saudi Arabia, the United Arab Emirates and Kuwait.

6. The importance of the oil sector in the economies of most ESCWA members is apparent. Excluding Jordan, Lebanon, and the West Bank and the Gaza Strip, which do not export any oil, the remaining ESCWA members are all exporters of oil in varying degrees, and oil revenues play, directly and indirectly, an important role in their economies.

7. In the GCC countries, for example, despite the diversification efforts over the past two decades, the oil sector still represents around 35-40 per cent of these countries' combined GDP. Oil revenues account for as much as 80 per cent of government revenues and for more than 85 per cent of exports in these countries. In the more diversified economies of the region, such as Egypt, the Syrian Arab Republic and Yemen, although oil revenues do not assume such a dominating role, they still represent a major source of foreign exchange earnings, and this has positive effects on the respective balance-of-trade accounts. The considerable rise in oil revenues, therefore, exerts an appreciable impact on the level of economic activities in the majority of ESCWA member countries.

8. The GDP of the GCC countries was estimated to have registered a 4.9 per cent growth rate in 1996, compared with a 1.1 per cent growth rate in the preceding year. This marked acceleration in economic growth may be attributed mainly to the growth in the oil sector and its indirect positive implications for the non-oil sectors, in particular the banking, retail trade, and construction sectors. With the unexpectedly large increases in oil revenues, most Governments of the GCC countries were able to increase their expenditure significantly above planned levels and still narrow their respective budget deficits. The significant increases in government expenditures, coupled with the multiplier effect, helped to boost further economic activities and growth in these countries. Per capita GDP in the GCC countries was estimated to have increased by 1.8 per cent in real terms in 1996, after declining by 2.1 per cent in the previous year. In 1996, real GDP growth rates are estimated to have ranged between 5.2 per cent in both Kuwait and Oman to 3.2 per cent in Qatar. In each and every GCC country, GDP grew at a higher rate in 1996 than in 1995.

9. Bahrain's GDP was estimated to have increased by an estimated 3.8 per cent in 1996, compared with 2.2 per cent in 1995. Bahrain's economy, the most diversified among the GCC countries, was stimulated by the estimated 44.7 per cent increase in its oil revenues. This considerable increase was due partly to the rise in oil prices and partly to the country's gaining all the revenues, since April 1996, from the output of the offshore Abu Saafa oilfield, which it had previously shared with Saudi Arabia. The banking sector, which traditionally has a strong link with developments in the oil sector, performed very well in 1996. Most banks recorded higher profits than in the previous year. The industrial sector, led by oil-refining and aluminium, performed well in 1996. The tourism sector recovered somewhat from its poor performance in 1995 and continued to attract tourists from other GCC countries, particularly Saudi Arabia. The Government of Bahrain plans to raise the salaries of public-sector employees by between 6 and 15 per cent in 1997. In addition, the

Government plans to allocate 1.15 billion Bahrain dinars (BD) (equivalent to $3.1 billion) for capital expenditure during the four-year period 1997-2000. It should be noted that Bahrain had allotted only BD 400 million ($1.1 billion) for capital expenditure during the previous four years. Bahrain's economy is expected to grow at a slightly higher rate in 1997 than in 1996, despite a projected decline in oil prices in the international markets.

10. The GDP in Kuwait was estimated to have increased by 3.9 per cent in 1995 and by 5.2 per cent in 1996. Economic conditions improved remarkably in Kuwait in 1996, owing mainly to an estimated 19.1 per cent rise in Kuwait's oil revenues, which have increased the country's balance-of-trade surplus and simultaneously reduced its budget deficit. In addition, during the fourth quarter of 1996, Kuwait repaid its last instalment of the $5.5 billion loan that it borrowed at the end of the Gulf war. Moreover, Kuwaiti assets abroad, which were estimated by unofficial sources at $35 billion in 1995, must have increased considerably in 1996, owing to additional deposits by the Government and the significant appreciation of the overseas investments during that year. Kuwait's GDP is projected to grow by 4.3 per cent in 1997.

11. Oman's economy registered a growth rate of 4.5 per cent in 1995 and an estimated 5.2 per cent growth rate in 1996. This steady and solid performance may be attributed not only to the expanding oil sector but also to the fact that Oman is at the forefront of economic reform among the GCC countries. The private sector has apparently responded to governmental inducements to play a greater role in the economy of the country. Despite projected declines in oil prices, Oman's GDP is expected to grow by 4.9 per cent in 1997, which would be the highest among the GCC countries.

12. Qatar's GDP, which grew by a modest rate of 1.4 per cent in 1995, was estimated to have registered a 3.2 per cent growth rate in 1996. This marked acceleration in economic growth was mainly due to the 13.5 per cent increase in the country's oil production, from 422,000 barrels per day (b/d) in 1995 to 479,000 b/d in 1996. Given the increase in oil prices, the rise in oil production resulted in an estimated 34.3 per cent increase in Qatar's oil revenues in 1996. The economy of Qatar, a major producer of natural gas, also benefited from higher natural gas prices in 1996. Qatar's GDP is projected to register a higher growth rate, of 3.7 per cent, in 1997, owing mainly to expected higher oil production and returns from its major liquefied natural gas plants, which have recently been constructed and/or expanded.

13. Saudi Arabia's economy, which accounts for over 40 per cent of the ESCWA region's GDP and around 58 per cent of the combined GDP of the GCC countries, performed very well in 1996. After being basically stagnant in 1995, Saudi Arabia's real GDP was conservatively estimated to have registered a 5 per cent growth rate in 1996. In nominal terms, the Kingdom's GDP grew by 8.6 per cent in 1996, according to official estimates. With oil production averaging 8 million b/d, the country's oil revenues were estimated to have increased by more than $8 billion, to a total of around $51 billion in 1996, a 19.3 per cent increase over 1995. The growth of the oil sector, which accounts for over one third of the Kingdom's GDP and around 90 per cent of its exports, was clearly the main factor in boosting the economy and reducing the country's internal and external imbalances. The increase in oil revenues was more than sufficient to

wipe out the budget deficit. Instead, however, the Government apparently opted to repay its outstanding debts to private contractors, increase governmental expenditure above planned levels, and simultaneously narrow the budget deficit. The private sector benefited greatly from the increase in the Kingdom's oil revenues and the rise in Government expenditure, particularly the banking, retail trade and construction sectors. Despite an expected decline in oil prices in 1997, Saudi Arabia's GDP is projected to grow by 3.5 per cent in 1997, owing partly to increased governmental expenditure and a rejuvenated private sector.

14. According to the Ministry of Planning in the United Arab Emirates, the country's GDP grew by 6.1 per cent in real terms in 1995 and was preliminarily estimated to have grown by 7.4 per cent in 1996. ESCWA estimates, however, put the GDP growth rate of the United Arab Emirates at 2.2 per cent for 1995 and 5 per cent for 1996. In either case, the economy of the United Arab Emirates performed well in 1995 and considerably better in 1996. The oil sector accounts for around 40 per cent of the country's GDP. The United Arab Emirates' oil revenues increased from $12.8 billion in 1995 to an estimated $15.3 billion in 1996, and this had very positive direct and indirect effects on the country's economy. The country's balance-of-trade surplus increased, while the budget deficit declined, despite a rise in governmental expenditure above planned levels. The banking sector recorded substantial profits. The re-export trade surged in 1996, owing mainly to a large increase in the size and number of companies, in particular in the Jabal Ali free trade zone. The tourism sector performed well in 1996, with a rapidly rising number of tourists, particularly from Europe. Several international exhibitions took place in Abu Dhabi and Dubai, and the restaurant and hotel sector performed exceptionally well in 1996. The departure of 180,000 expatriates who were working illegally in the United Arab Emirates had only minor adverse effects on the economy as a whole; these effects were felt mainly in smaller enterprises and the construction sector. There were no significant increases in employment opportunities for nationals since most of the jobs vacated by the departing expatriate workers are not considered suitable by national job seekers. The economy of the United Arab Emirates is expected to register solid growth again, owing to the expected positive contribution of the oil sector, the growing dynamism of the private sector, and also to the expected increases in governmental expenditure, both current and capital expenditure. The country's GDP is projected to grow by 4.5 per cent in 1997.

15. The region's more diversified economies, with the exception of Iraq, performed well in 1996, with an estimated combined GDP growth rate of 4.7 per cent. This growth rate was high enough to yield an estimated GDP per capita growth rate of 2 per cent for this group of countries as a whole. Overall economic performance, however, varied from one country to another.

16. Egypt's economy, the largest among the ESCWA region's more diversified economies and the second largest among all ESCWA member countries, was estimated to have grown by 4.9 per cent in 1996, up from 4.6 per cent in 1995. This allowed the country's GDP per capita to grow by an estimated 2.7 per cent in 1996. The Egyptian economy is reaping some of the expected benefits from the structural adjustment programme that the Government initiated in 1991, under the sponsorship of the International Monetary Fund (IMF). Egypt's rate of

inflation, which registered 15.7 per cent in 1995, is estimated to have declined to 7.2 per cent; the budget deficit as a percentage of GDP has fallen to 1.2 per cent; foreign reserves available in the Central Bank of Egypt continued to increase in 1996 and were estimated to have reached close to $19 billion by the end of the year. The manufacturing sector, which accounts for about 18 per cent of Egypt's GDP, was estimated to have grown by around 5.5 per cent in 1996 and is projected to grow by 7-8 per cent in the coming years. This is partly due to the commencement of large industrial projects and the issuance of new laws that are of great importance for Egypt's industrial sector, such as the new labour and unified investment law. The tourism sector performed well in Egypt in 1996, with tourism revenues reaching a new record of $3 billion. The number of tourists who visited Egypt in 1996 totalled 3.8 million, also a new record. This figure is projected to rise to 4.2 million in 1997. Hotel occupancy rates registered a record 63 per cent during the first 11 months of 1996. Egypt's total hotel capacity jumped from 18,000 rooms in 1981 to 68,000 rooms in 1996. The Egyptian Government plans a worldwide campaign to further promote tourism in Egypt, with special concentration on the United States of America and Western Europe. The banking, construction and retail trade sectors were all estimated to have registered growth of over 5 per cent in 1996. The Egyptian stock market performed well in 1996 and is expected to perform well again in 1997, as the privatization process is accelerated and foreign private investment increases markedly. Egypt's GDP growth is projected to accelerate further in 1997 and register a 5.5 per cent growth rate, with the private sector playing a more dynamic role and projects agreed upon with foreign investors during the Third Middle East and North Africa (MENA) Summit, held in Cairo in November 1996, beginning to be implemented. In addition, gigantic government-led development projects will be undertaken in Upper Egypt and the Sinai Peninsula.

17. Iraq's economy remained crippled by the United Nations economic sanctions imposed on it since August 1990. Economic conditions continued to deteriorate in 1996 to such an extent that Iraq, which is well endowed with valuable natural and human resources, is now ranked in the lowest group of least developed countries in the world. Economic conditions may be expected to improve only slightly in 1997, as a result of the oil-for-food deal with the United Nations, which allows Iraq to export $2 billion worth of oil every six months. However, a meaningful and urgently needed recovery can only be achieved with the total removal of the United Nations-imposed economic sanctions.

18. The GDP in Jordan grew by 6.4 per cent in 1995 and an estimated 5.2 per cent in 1996. Despite a relatively high population growth rate, the economic performance of the country allowed it to register a 1.5 per cent per capita GDP in 1996. The country's economy was adversely affected by the continued imposition of economic sanctions on Iraq (its major trading partner prior to the imposition of the sanctions); by the Israeli bombing of Lebanon in April 1996, which negatively affected the tourism sector and foreign direct investment in Jordan; and the stalling of the Middle East peace process, which discouraged not only foreign investment but also investment by expatriate Jordanians and by private investors in the Kingdom. However, Jordan's economy benefited from improved relations with GCC countries, which led to more exports of Jordanian goods to those countries and to an increase in employment opportunities for Jordanian workers seeking employment abroad. Jordanian

expatriate workers were estimated to have remitted to Jordan $1.54 billion in 1996, a 25.2 per cent increase above the 1995 level of $1.23 billion. Jordan's GDP is projected to grow by 6.2 per cent in 1997, the highest growth rate among the ESCWA member countries.

19. Lebanon's GDP, which grew by 7 per cent in 1995, was estimated to have registered a growth rate of 3 per cent in 1996. The Israeli bombing of Lebanon in April 1996 had a considerable negative impact on the country, in particular on the important tourism sector. Relatively high interest rates have discouraged greater private investment. Lebanon's GDP is projected to register a 5 per cent growth rate in 1997.

20. The GDP in the Syrian Arab Republic in 1996 was estimated to have registered a growth rate of 5.9 per cent, compared with 3.6 per cent in 1995. The country's GDP per capita was estimated to have risen by 2.9 per cent in 1996, which was the largest increase among all of the ESCWA member countries. The Syrian economy benefited from a 21 per cent increase in its oil revenues and a strong performance in the agriculture and tourism sectors. The private sector, encouraged by the Government, is playing an increasingly important role, particularly in the tourism sector. The country also benefited in 1996 from rising workers' remittances, especially from the Syrian expatriates in the GCC countries. The GDP of the Syrian Arab Republic is projected to grow by 4.8 per cent in 1997.

21. Yemen, the region's least developed country, has been confronted by severe internal and external imbalances. It began implementing economic and structural reforms in 1995, under the auspices of the World Bank and IMF. After registering a GDP growth rate of 8.5 per cent in 1995, the economy was estimated to have grown by 3 per cent in 1996. Owing to Yemen's relatively high population growth rate, its GDP per capita declined by an estimated 0.7 per cent in 1996. Although Yemen's economy benefited from higher oil prices and revenues, the country suffered considerably from the June 1996 floods, which had a severe negative impact on the important agriculture sector. Yemen's GDP is projected to register a 3.5 per cent growth rate in 1997.

22. The combined GDP of the West Bank and the Gaza Strip grew by 3.5 per cent in 1995. The initial forecast for 1996 was that the GDP would grow by 7 per cent; instead, it was estimated to have declined by 5 per cent in that year. This was mainly due to the frequent closures of the borders of the West Bank and the Gaza Strip by the Israeli Government and the less than expected financial and technical assistance from the international community. Assuming that Israel will allow at least 35,000 Palestinian workers to continue working in Israel and that Israel will permit the free flow of goods between it and the West Bank and the Gaza Strip, the GDP of the West Bank and the Gaza Strip is projected to grow by 5 per cent in 1997.

23. The economic outlook for the ESCWA region in 1997 will greatly depend on:

(a) The international prices of oil;

(b) The implementation of economic reforms in the member countries;

(c) The developments in the Middle East peace process;

(d) Iraq's return to the international oil market and the lifting of the sanctions on Iraq.

It is projected that the GDP of the ESCWA region will grow in 1997 by a rate of 4.3 per cent. This projected growth rate, although lower than the 4.8 per cent estimated growth rate for 1996, would still be significantly higher than the 2.2 per cent growth rate achieved in 1995. It would also be sufficient to yield a 2.1 per cent per capita real GDP growth rate in the region. Moreover, while it is projected that the combined GDP of the GCC countries will grow by 3.9 per cent, the GDP of the more diversified economies is projected to grow by 5.2 per cent in 1997.

24. In 1996, the drive for economic reform and structural adjustment lost most of the momentum it had accumulated in the previous year throughout most of the GCC countries because of the unexpectedly large increase in oil revenues. In 1996 several GCC countries postponed implementation of policies to widen and diversify the tax revenue base and to further reduce subsidies on goods and services provided by the Government. Gradual implementation of such a policy is required in order to avoid abrupt and sharp reductions whenever these countries are confronted by significant declines in oil revenues.

25. Economic reform continued to be implemented in most of the region's more diversified economies, in particular in Egypt and Jordan, with privatization accelerating notably in the former. Egypt's economic reform programme - including full liberalization of the capital and labour markets, the freeing of external trade and the completion of the country's privatization programme - is expected to be completed by the year 2000.

26. High unemployment rates remain a major problem facing the members of the ESCWA region, despite the reported growth rates in real GDP and the net increase in per capita income referred to above. This is particularly true with regard to the more diversified economies in the region. These economies generally have over the past several years been characterized by a relatively high rate of population growth and by an increase in the number of new entrants to the labour market which has been well beyond the economic capacity of the countries concerned to absorb fully. These countries have, for several years now, been characterized by labour forces that are growing at a higher rate than their economies. As a result, the increase in the demand for labour has not been sufficient to absorb the increase in the supply of labour. Recently the situation was further exacerbated following Governments' policies to curtail expenditure, reduce budget deficits, and contract public-sector employment. Moreover, opportunities for employment outside the region have, in general, become more scarce.

27. The highest unemployment rate in the region was reported in the West Bank and the Gaza Strip, affecting 28 per cent of the labour force there. If underemployment is also counted, these rates would, on the basis of preliminary estimates, reach 45 per cent in the West Bank and 60 per cent in the Gaza Strip. A number of factors accounted for this grave unemployment situation. They included, on the one hand, Israel's border closure practices and the

deteriorating political situation, which discouraged private and foreign investment and led to the postponement of major reconstruction projects. On the other hand, it should be noted, the West Bank and the Gaza Strip have also had relatively very high population growth rates.

28. In Yemen, the rate of unemployment in 1996 was still very high, although lower than the rate reported for 1995; it was estimated at 25 per cent of the labour force, compared with 30 per cent in 1995. The high growth rate of the labour force (estimated at an average annual rate of 4.25 per cent) and Government efforts to reduce its payroll did not help to lower this rate.

29. In Egypt and Jordan too, the preliminary estimates show a relatively high unemployment rate of around 13 per cent. In an effort to create more employment opportunities for Jordanians, the Government of Jordan enacted a law in 1996 prohibiting non-Jordanians from employment in 15 different professions and businesses in the country. What is interesting to note here is that the Egyptian and Jordanian economies need a minimum average annual rate of growth of 7-8 per cent in order to absorb fully the expected number of new entrants into their labour forces (estimated at 500,000 and 50,000, respectively) and secure lower unemployment rates. The Syrian Arab Republic suffers from high unemployment, but with a lower rate than the rates reported for Egypt and Jordan.

30. Some of the GCC countries also suffer from unemployment among their indigenous populations. This is rather paradoxical since all GCC countries are labour-receiving countries. This relatively new phenomenon has been a cause of concern to the Governments of GCC countries. There are several factors behind the phenomenon. Chief among them have been the unrealistic expectations of the nationals entering the labour force; the availability of low paid expatriate workers; governmental policies to restrain the expansion of public-sector employment; and the current mismatch between the type of qualifications held by job seekers and the type of job opportunities that are available in the market place in these countries.

31. Indigenization of the labour force (replacing foreign workers with nationals) is now considered a developmental goal in most of the GCC countries. Bahrain and Oman have made some progress in indigenizing their labour force. The progress, however, remains limited and confined mainly to the public sector. In the private sector, the process has so far involved certain managerial and clerical jobs only. The success of the process will, to a great extent, depend on enabling the indigenous population to acquire the type of education and technical skills that meet the requirements of the labour market in the coming years. The policy of obliging the private sector to employ nationals may affect the overall economic performance adversely and may not be sustainable in the long run.

32. The social consequences of chronic unemployment in the ESCWA region are very serious. High unemployment breeds marginalization and other social problems, increases poverty and income inequality, and inflicts a high human cost on the unemployed in terms of reduced well-being and loss of dignity. These consequences are especially problematic for young people, who are new entrants to the labour market and who, after long years of education, find that

they cannot secure adequate income levels. At the family level, unemployment may also lead to family breakdown, forced child labour and further marginalization of poor families. Such futility and frustration breed crime and other social pathologies which can lead to social and political unrest, from which everyone in society suffers.

33. The inflation rates in most ESCWA member countries were, in general, at internationally acceptable levels in 1996. The rates among the more diversified economies, however, tended to be considerably higher than those reported for the GCC countries. For example, Jordan's inflation rate, estimated at 6 per cent, the lowest among the more diversified economies, was still higher than the highest rate (4 per cent, in the United Arab Emirates) among the GCC countries in 1996.

34. Yemen's inflation rate, estimated at 30 per cent for 1996, has been the highest among the more diversified economies. This rate, it should be noted, is considerably below the country's staggering inflation rates of 120 per cent and 55 per cent, registered in 1994 and 1995, respectively.

35. In the Syrian Arab Republic, the estimates indicate that the inflation rate increased in 1996 compared with 1995, from 18.5 per cent to 20 per cent. Two factors may have added to the inflationary pressure in the country. The first was the high liquidity in the banking system; the second was the official devaluation of the Syrian pound (LS) for several imported items, from LS 11.2 for $1 to LS 42 for $1.

36. In the West Bank and the Gaza Strip, the inflation rate declined substantially: from 25 per cent to 12 per cent between 1995 and 1996. This decline may be interpreted as a result of the sharp decline in the purchasing power of the Palestinian people in a year which saw very high unemployment rates and a general decline in the level of economic activities.

37. In Lebanon, the inflation rate in 1996 declined to an estimated 8.9 per cent from 14 per cent in 1995. This decline reflects the more conservative monetary policies pursued by the country's Central Bank and the decline in the growth of economic activities.

38. In Egypt, estimates show the inflation rate declining to 7.2 per cent in 1996, compared with 15.7 per cent in 1995. Two main contributors to this drop may have been the decline, to a record low, in the budget deficit as a percentage of GDP, and the Government's use of treasury bills to finance its budget deficits instead of increasing the supply of money.

39. In Jordan, as noted above, the estimate of the inflation rate in 1996 was 6 per cent. This rate is an increase compared with the 2.3 per cent reported for 1995. It is important to note here that the Government of Jordan in general pursued conservative monetary and fiscal policies. The escalation in the inflation rate is due primarily to the reduction in the level of governmental subsidies of wheat, fodder, water and electricity in 1996.

40. In the GCC countries, inflation rates continued to be restrained in 1996. They ranged from 4 per cent in the United Arab Emirates to only 1.2 per cent in

Saudi Arabia. Most GCC countries traditionally pursue conservative monetary policies. All GCC currencies, with the exception of Kuwait, are pegged to the United States dollar. The appreciation of the United States dollar in 1996, in terms of the currencies of Japan and most Western European countries, helped to further dampen the inflation rates in the GCC countries. The prices of imports from these major trading partners thus became cheaper. Furthermore, the sharp increase in governmental revenues in 1996 allowed the Governments to postpone additional reductions in subsidies of various government-supported goods and services, as noted above.

II. DEVELOPMENTS IN INTERNATIONAL TRADE AND PAYMENTS

41. Preliminary data and estimates indicate that the region's exports and imports in 1996 were positively affected by the significant rise in oil prices, by the overall economic growth and by the increase in non-oil exports. Exports were estimated to have increased by 15 per cent during 1996, while imports increased by 9 per cent. The GCC countries' exports, which were estimated at $117.4 billion and accounted for 89 per cent of the ESCWA region's total exports, recorded a 16 per cent increase during 1996. This increase is mainly attributable to higher oil prices, especially in the latter half of the year. The largest percentage increases in exports within the group were recorded by Kuwait, Saudi Arabia and the United Arab Emirates, for which exports were estimated to have risen by 19 per cent, 18.8 per cent and 14.9 per cent, respectively. Kuwait benefited significantly from higher oil prices, and its oil exports increased from $10.2 billion in 1995 to an estimated $12.1 billion in 1996. The significant increases in exports noted by Saudi Arabia were mainly due to higher oil prices but also in part to greater exports of petrochemicals and non-oil exports. The United Arab Emirates experienced continued export growth in the non-oil sector, particularly with regard to re-exports; increased exports to South-East Asia also contributed to this growth. Oman and Qatar noted increases in exports during the year, estimated at 10 per cent in both countries. Bahrain's increase in exports, estimated at 5 per cent, was due to increases in aluminium exports and the decision by Saudi Arabia to transfer to Bahrain all of the revenues of the Abu Saafa oilfield, which had been shared by the two countries.

42. The ESCWA member countries with more diversified economies recorded an estimated increase in exports of 5.6 per cent. Some countries in this group benefited to some extent from higher oil prices, but some, such as Egypt, witnessed declines in non-oil exports. Total exports of the group were estimated to have increased from $14.2 billion in 1995 to $15 billion in 1996. The largest percentage increase was recorded by Lebanon, for which exports were estimated to be more than 20 per cent greater than the previous year. The Syrian Arab Republic's exports increased by 16.9 per cent over 1995 levels, according to official reports. Exports were mainly oil and raw materials, which benefited from the increase in oil prices. Non-oil exports, however, continued to be affected by many factors, including exchange rate restrictions, though rates were modified somewhat during 1996. Increases in exports of Yemen amounted to an estimated 8.5 per cent during 1996 and may have been higher, but there were difficulties in recording accurate statistics for the country's large informal sector. Jordan's rise in exports, estimated at 7.4 per cent, was

considerably lower than the previous year's increase of 26 per cent and was, in part, attributable to border difficulties which adversely affected trade with Israel and the West Bank. Egypt witnessed a decrease in exports estimated at 6 per cent as non-oil exports declined: a major factor in this decline was the drop in textile exports. Estimated data for the West Bank and the Gaza Strip indicate that exports were adversely affected by the severe restrictions placed on the movement of goods and people by the Israelis during 1996 and consequently fell by 20 per cent: under the guise of security measures, goods were prevented from being exported not only to Israel but also to Jordan and Egypt or elsewhere outside the region for much of the year.

43. Regarding import performance, preliminary estimates indicate that the ESCWA region's imports grew from $93.3 billion in 1995 to $101.8 billion in 1996. Imports by the GCC countries totalled $67.5 billion. They amounted to 66.3 per cent of the region's total imports and approximately 75 per cent of the oil revenues in those countries, which totalled about $89.9 billion in 1996. Imports increased in all countries in the group. The increases ranged from 11 per cent in Oman to 3 per cent in Qatar. In the United Arab Emirates and Kuwait, imports increased by 10 per cent and 8 per cent, respectively. In Oman and Kuwait, increases in imports were in part the result of higher imports of capital goods. Saudi Arabia witnessed an increase in imports of 4 per cent over its recorded 1995 level. This was caused partly by the increase in governmental spending which occurred when oil revenues were higher than expected during the second half of 1996. Another factor has been the stronger dollar. The appreciation of the dollar against most currencies during 1996 effectively lowered the prices of imports purchased from Japan, Europe and elsewhere.

44. Imports by ESCWA member countries with more diversified economies increased by 14 per cent during 1996, from $30.2 billion to an estimated $34.3 billion. With the exception of Iraq, owing to the continued United Nations economic sanctions, imports of every country in the group increased, from 8 per cent in Jordan to 28 per cent in Lebanon. Imports by Yemen, the Syrian Arab Republic and Egypt rose by 15.5 per cent, 14.7 per cent and 10.1 per cent, respectively, compared with 1995 levels. The increase in Egypt's imports during 1996 may have been influenced by a reduction in tariffs. In October 1996, Egypt announced an across-the-board tariff cut on imports, ranging from 10 to 15 per cent. Tariffs on luxury items, however, remained high, at 135 per cent on some goods. Jordan's liberalization programme, which included the lowering of some tariffs, may have contributed to higher import levels. The protection of the Jordanian currency's exchange rate may have affected import levels during 1996. Indications, however, are that this policy will be maintained in the coming years.

45. On the basis of the above data, it was estimated that the region's balance of trade recorded a surplus in 1996. The surplus is put at $30.5 billion, significantly higher than the $21.7 billion recorded for the previous year, and mainly the result of higher oil prices. The GCC countries witnessed an increase in their balance-of-trade surplus, which totalled $49.9 billion in 1996, compared with $37.7 billion in 1995. However, estimates indicate that the ESCWA member countries with more diversified economies witnessed deficits in their overall balance of trade, amounting to $19.3 billion, significantly higher than

the previous total of $16 billion. Imports were greater than exports for all the member countries.

46. Forecasts for 1997 indicate that the balance of trade will deteriorate slightly for the region as a whole and for the GCC group of countries. Exports of the ESCWA region are expected to rise modestly, based on the assumption of oil prices in the $17.5-$19/barrel range, coupled with a modest increase in the volume of oil exports. It is projected that the GCC countries will experience a rise in exports of 2 per cent only. Their imports are expected to increase by 7 per cent, causing a slight decline in the balance of trade. Countries with more diversified economies are expected to benefit from export-oriented economic reforms and greater penetration into new export markets. The exports of the more diversified economies, therefore, are expected to be 17 per cent higher in 1997, and their imports 8 per cent higher.

47. The region's ability to finance imports from its export proceeds, as measured by the export/import ratio, rose from 1.23 in 1995 to 1.30 in 1996. The ratio for the GCC countries increased from 1.6 in 1995 to 1.74 in 1996, mainly owing to the increase in exports. The ratio for the countries with more diversified economies, however, decreased slightly, from 0.47 to 0.44, largely as a result of increasing imports. The export/import ratio forecast for 1997 for the region as a whole is put at 1.26, which is lower than its 1996 level. This projected decline is due to the fact that the expected relative increase in imports exceeds the projected relative increase in exports.

48. Preliminary estimates regarding the current-account balance for the majority of the ESCWA members for which data were available (excluding Iraq, the Syrian Arab Republic, the West Bank and the Gaza Strip, and Yemen) indicate that the overall deficit decreased significantly, from $8.7 billion in 1995 to $1.4 billion in 1996. This was mainly due to a better trade balance resulting from higher oil exports. The GCC countries, according to recent estimates, recorded a surplus in the total current-account balance of $5.8 billion, representing a notable improvement over the 1995 deficit of $2.5 billion. In the GCC countries, the most significant improvement was registered by Saudi Arabia. It recorded a surplus of $900 million in 1996, following a deficit of $8.1 billion the previous year. This improvement was largely due to the increase in its balance-of-trade surplus as a result of higher oil-export earnings. Bahrain and Kuwait also recorded improvements in their balances, according to the latest estimates. Bahrain's current-account surplus increased from $480 million in 1995 to an estimated $600 million in 1996, while Kuwait's surplus increased to $4.3 billion in 1996, up slightly from the $4.2 billion recorded the previous year. Oman, Qatar and the United Arab Emirates current-account balances are estimated to have deteriorated, despite higher earnings from oil-export earnings during 1996. Oman and Qatar, which recorded deficits during 1995, saw these deficits increase in 1996 from $350 million to $740 million for Oman and from $260 million to $410 million for Qatar. The United Arab Emirates, though maintaining a surplus in its current-account balance for both years, recorded a decrease from $1.5 billion in 1995 to $1.1 billion in 1996.

49. The deficit in the current account of the countries in the region with more diversified economies was estimated to have increased from $6.2 billion in 1995

to $7.2 billion in 1996. This was largely due to the significant deterioration in Egypt's deficit, which increased from $254 million in 1995 to $1 billion the following year, mainly because of lower exports during 1996. Lebanon also saw its deficit increase in 1996, but by a lower amount, to $5.9 billion, up from the $5.4 billion of the previous year. Jordan, however, witnessed an improvement in its current-account balance: its deficit, which was $460 million in 1995, was estimated to have decreased to $270 million in 1996, mainly owing to the rise in workers' remittances.

50. The overall current-account balance for the ESCWA region is expected to remain in deficit in 1997. It may increase to around $4 billion if oil prices range between $17.5 and $19/barrel and imports increase as expected. The total surplus for the GCC countries is expected to fall to around $4 billion, while the deficit for the more diversified economies is expected to increase to around $8 billion.

51. Partial and preliminary data for 1996 indicate that the region's international reserves (excluding Iraq, the West Bank and the Gaza Strip, and the Syrian Arab Republic owing to lack of data) increased by 6.3 per cent over 1995 levels: from $51.2 billion to $54.4 billion. This was mainly the result of higher reserves in the region's more diversified economies. The reserves of the GCC countries remained unchanged at $23.4 billion, while those of the ESCWA member countries with more diversified economies increased by 11 per cent, reaching $30.9 billion in 1996. Saudi Arabia and the United Arab Emirates hold the largest reserves in the former group, with $8.5 billion and $8.0 billion, respectively. Egypt is the largest holder of reserves in the latter group, with $19 billion.

52. With regard to the region's ability to provide for its imports, the above preliminary data on international reserves show that the region was able to cover 6.9 months of imports in 1996. This was slightly lower than the coverage for the previous year, which amounted to 7.1 months. The GCC countries were able to provide for 4.2 months of import coverage, while ESCWA member countries with more diversified economies were able to cover 13.9 months of imports with 1996 reserve levels, mainly because of Egypt's relatively high level of international reserves.

53. Progress was made in many countries of the region in undertaking economic reforms in line with those required for accession to the World Trade Organization (WTO). These include trade-related measures such as a reduction in tariffs, the elimination of non-tariff barriers, and the standardization of tax laws and rates for foreign and domestic firms in some countries. In 1996 the United Arab Emirates joined WTO; Bahrain, Egypt, Kuwait and Qatar were already members. Trade prospects are expected to be favourable for these countries as a result. Jordan, Lebanon and Saudi Arabia have requested membership in WTO, while Oman, which has observer status, and the Syrian Arab Republic are still weighing the advantages and disadvantages of joining. Some ESCWA member countries undertook negotiations with the European Union leading towards eventual partnership agreements similar to those with other Mediterranean countries. The European Union and the GCC countries are considering a free-trade accord. With regard to trade within the region, the establishment of an Arab monetary union was the major topic of discussion at a meeting held under

the auspices of the Arab Monetary Fund in Cairo during 1996. The aim of forming such a union would be to enhance prospects for greater intraregional trade among ESCWA member countries.

54. Total external debt of ESCWA member countries, excluding Iraq, is estimated to have declined by around 4 per cent, from around $182 billion in 1995 to around $175 billion in 1996. This decline was caused partly by rescheduling and forgiveness of parts of the debt of a number of member countries, such as Egypt, Jordan and Yemen, and partly by repayment of debt by others, such as Kuwait, which in late 1996 paid the final instalment of $786 million. (This amount was still outstanding from the $5.5 billion on the sovereign loan made to Kuwait in 1991.) Against this positive development in the external debt of a number of ESCWA member countries, the external debt of some other ESCWA member countries increased. For example, the external debt of Qatar amounted to around $8.1 billion in 1996, up by around 42 per cent over 1995 ($5.7 billion), and that of Lebanon increased by around 38 per cent, from $1.28 billion to $1.77 billion. The external debt of Jordan, which amounted to around $6 billion in 1996, was lower by around 10 per cent than the figure in 1995 ($6.6 billion); it is expected to rise to over $7.5 billion during the next two years, owing to loan commitments of around $1.5 billion to Western creditors and multilateral organizations.

55. While most of the external debt of GCC countries is short-term and geared to financing trade, most of the external debt of other ESCWA member countries is long-term and partly concessionary and soft-term.

III. MONEY, FINANCE AND BANKING

56. In 1996, a number of ESCWA member countries (including Egypt) started organizing on a regular basis treasury bill auctions at market-determined interest rates. These auctions quickly became the key determinant of domestic monetary conditions. Other ESCWA member countries carried out measures to increase their reliance on reserve requirements (Jordan and Yemen) and develop the interbank market (the GCC countries, Egypt, Jordan and Lebanon). Further benefits are expected from the sustained efforts to strengthen the financial markets through, for example, measures to promote competition among the various segments of the financial sector and progressively widen access to the markets.

57. In 1996, within the context of financial liberalization, the improvements in the mechanisms of monetary control in most ESCWA member countries were achieved by a move away from quantitative credit restrictions to indirect instruments of monetary control. It is useful to note here that the rediscount instrument was made more responsive to changes in market conditions; the sale and the repurchase of treasury bills and other government financial papers were used increasingly as instruments in the management of liquidity; in addition, the legal reserve requirements were made uniform across the whole spectrum of financial institutions.

58. The unexpectedly large increase in oil revenues, caused by the rise in oil prices in 1996, enabled most of the GCC countries either to cut their 1996 budget deficits significantly or to eliminate them completely and record slight

budget surpluses, as in the case of Bahrain. The surge in the United States dollar against other major international currencies in 1996 gave another boost to the economies of these countries. With oil exports being priced in dollars, the oil revenues of the GCC countries were higher in real terms, since most of their oil exports were to Japan and non-dollar areas. Moreover, the higher oil prices in 1996 are estimated to have resulted in additional revenues of over $8 billion, $2.5 billion, $1.95 billion, $1.2 billion and $0.9 billion to the Governments of Saudi Arabia, the United Arab Emirates, Kuwait, Oman and Qatar, respectively.

59. While the GCC countries could resort to using these resources and, if necessary, draw on their foreign reserves to finance their budget deficits, the ESCWA member countries with more diversified economies continued searching for alternative means to reduce their budget deficits.

60. In 1996, stock markets in the ESCWA region mostly performed better than those in many emerging markets in other developing regions. While the aggregate index of the markets in other developing regions was estimated to have dropped by around 8 per cent in 1996, that of stock markets in the ESCWA region was estimated to have risen by around 12 per cent. The improved economic performance of most ESCWA member countries in 1996 was reflected in the surge of activities in their respective stock markets. Moreover, the rise in the overall liquidity in the economies of most ESCWA member countries enabled many corporations to raise private capital in the stock market.

61. The privatization drive in a number of ESCWA member countries benefited their stock markets significantly. This is mainly because most of the privatization was made through public offerings. The improved investment environment in the ESCWA region led to a rise in interregional capital flows, mainly through the stock markets. This development has facilitated the linking of stock markets in ESCWA member countries. A link was established in September 1996 between the stock markets of Egypt, Kuwait and Lebanon, and another in December between the stock markets of Bahrain, Kuwait and Oman. The total capitalization of these markets was estimated to have amounted to around $55 billion in 1996, compared with $28 billion in 1995.

62. In 1996 stock markets in the region emerged as a major segment of the financial system of ESCWA member countries. For most financial and non-financial institutions, the stock markets acted as an appropriate vehicle for raising funds to increase their own capital base and finance investment projects.

63. In spite of the favourable developments in the stock markets in the region in 1996, most of the markets concerned would not be classified as emerging markets. They still have insufficiently developed legal, administrative and institutional infrastructures and stringent regulations concerning the participation of foreigners.

64. The development of stock markets in the region has been encouraged by the Governments of member countries. This came about at a time when most were burdened with budget deficits and lacked the funds needed to finance infrastructural and other projects. Governments expect stock markets to assist

them in mobilizing the resources needed to finance budget deficits and planned investment projects.

65. Historically, both the business environment and the size of the stock markets in ESCWA member countries have been shaped by the Governments and the institutional structure of financial intermediation. The Governments have played a prominent role in determining the level of economic activity in virtually all ESCWA member countries. The need to implement ambitious development projects, which the private sector was unwilling or incapable of doing, has further strengthened the role of the Government (the public sector). As to the institutional structure of financial intermediation, the financial markets in all ESCWA member countries are dominated by commercial banks, which traditionally have confined their lending mainly to short-term trade financing. The issuance of securities instead of bank loans as a principal financial instrument has increased markedly in recent years. This change in attitude is caused by a drive for privatization which is gaining momentum in most ESCWA member countries.

66. The financial business environment has improved in most ESCWA member countries in recent years. Nevertheless, the inadequate regulatory and institutional structures of financial markets in most of the countries of the region have not helped to improve the business environment to the fullest extent possible. Consequently, the financial markets in the ESCWA region have remained generally inadequate - informal, lacking transparency and exposed to the undesirable consequences of unchecked speculation.

67. The laws and regulations governing the stock markets in the ESCWA region vary in approach. All of them, however, despite their shortcomings, aim at mobilizing savings, providing corporate finance for both the public and private sectors, and safeguarding the interests of both the shareholders and the traders. The problem areas in these markets in 1996 continued to concern the enforcement of accounting standards, the quality of information disclosure, and the protection of the small investor from insider trading and other forms of malpractice.

68. Shareholders' equity in banks in the ESCWA region was estimated to have amounted to around $66 billion in 1996, up by 10 per cent from 1995 ($60 billion), and total assets were estimated to have increased by around 12 per cent, from $420 billion to $470 billion, but the capital base of most banks in the region remained low relative to that of major international banks, thus preventing the region's banks from playing a competitive role in the international banking markets.

69. Banks in the ESCWA region were estimated to have raised their share in financing economic activities in the region by around 17 per cent in 1996, from around $195 billion in 1995 to $228 billion in 1996. This increase was achieved mainly through project finance and syndicated loans for major investment projects. Total deposits in the banks in the region were estimated at around $275 billion in 1996, up by around 16 per cent from 1995 ($237 billion). The increase in bank deposits was partly due to the return of expatriate money, increased interregional investments, and relatively high interest rates, coupled with monetary stability in most ESCWA member countries; it was also partly due

to the introduction of a number of new financial instruments in several countries in the region.

70. The reform of the financial sector, which was part of the economic reform programmes of most ESCWA member countries, appears to have enhanced the external investments of a number of banks in the ESCWA region. These investments are estimated to have increased to around $60 billion in 1996, from $54 billion in 1995.

71. The relatively tight banking conditions that characterized the banking markets in the ESCWA region in 1995 eased significantly in 1996. This was the result of the upturn in economic activity and the reforms in the financial sector. Most banks in the region made record profits in 1996, despite a number of restraining factors: their continued need for further provisioning against non-performing loans made during the 1980s and early 1990s; the fall in receivables, generated from trade in securities; and the continued pressure to comply with internationally accepted capital adequacy standards.

72. The major activity of most banks in the ESCWA region in 1996 continued to be retail and consumer banking business. A number of banks, however, started paying more attention to universal banking (combining retail and wholesale banking) in order to enjoy the benefits of economies of scale and to avoid concentration of risk in one banking activity. A number of banks, notably in Egypt and some GCC countries, benefited from participation in governmental privatization efforts by underwriting privatization stocks and providing financial advisory services. Governments in these countries encouraged domestic banks to set up mutual funds, investing in local equities as well as equities of other ESCWA member countries.

IV. FOREIGN DIRECT INVESTMENT

73. Foreign direct investment (FDI) is the single largest component of renewed inflow of capital to developing countries. Inflows of FDI to developing countries grew from about $10 billion in 1986 to around $99 billion in 1995. This dramatic development concurs with the reforms and structural adjustments programmes that the developing countries undertook to stabilize their economies and bolster the role of the private sector by attracting foreign and local investors. However, ESCWA member countries' performance has not been commensurate with the cumulative performance of the developing countries with regard to the increase in the volume of inflows and outflows of FDI since the 1980s. Since most ESCWA member countries were affected by indebtedness and adverse economic and political circumstances during the 1980s, the region lost an opportunity to attract much needed inflows of capital which could have been used to accelerate economic growth and development in that decade. ESCWA member countries have recently started to create a climate more conducive to investment, however, by legislating new investment laws and adopting measures that aim at attracting private foreign and local investment.

74. The countries in the ESCWA region have so far been far less successful in attracting FDI inflows than developing countries in other regions. In 1995, the region as a whole attracted 0.8 per cent of the world's FDI inflows, while

South, East and South-East Asia attracted 8.74 per cent; Central and Eastern Europe, 3.8 per cent; Latin America and the Caribbean, 8.43 per cent; and Africa, 1.48 per cent of the world's inflows. Moreover, while the world's FDI inflows in 1995 increased by 39.6 per cent above their 1994 level, the inflows of FDI to the ESCWA region registered a decline of 19.7 per cent compared with the previous year. In fact, all regions in the world had positive FDI inflows growth in 1995, with the exception of the ESCWA region and Africa.

75. Capital invested abroad by ESCWA member countries amounted to 0.32 per cent of the world's outflows in 1995. Excluding China, the combined South, East and South-East Asian outflows were estimated at about 12 per cent of world outflows; Central and Eastern Europe, at 0.1 per cent; Latin America and the Caribbean, at 1.2 per cent; and Africa, at 0.2 per cent.

76. In 1995, the inflows of FDI to the ESCWA member countries totalled $2.38 billion, representing 0.8 per cent of total world inflows and 2.39 per cent of inflows to developing countries. In 1995 they were 19.6 per cent below the $2.96 billion level registered in 1994. Nevertheless, although the 1995 figure was less than that of 1994, it still amounted to a bigger volume of FDI inflow than in 1991 and 1992 - during and in the aftermath of the Gulf war - when inflows were $1.3 billion and $1.5 billion, respectively. The declining share of FDI inflows in the ESCWA region vis-à-vis that of developing countries is partly due to a decrease in the volume of FDI inflows to the region and partly to the increase in the volume of inflows to the developing countries as a whole. This development could also be attributed to the fact that, as of the late 1980s, more regional blocs were established in which affluent partners favoured investment either in the developing countries of the same bloc or in neighbouring countries. Japan's FDI is mainly directed towards South-East Asia; the United States and Canada invest mainly in the North American Free Trade Agreement (NAFTA) and Latin American countries, and the countries of the European Union invest in Eastern Europe. In addition, more investment opportunities opened up in other developing countries, such as China and some Latin American countries, than in the ESCWA region.

77. Of the total inflows of FDI to the ESCWA member countries in 1995, Egypt's share was the highest, amounting to 42 per cent. FDI inflows to Egypt surged in 1996 and were estimated to have reached $2 billion. The Saudi Arabian share, the second highest in 1995, amounted to 37.4 per cent, followed by Oman, with 6.3 per cent, and the United Arab Emirates, with 4.62 per cent. Egypt and Saudi Arabia have always received, by far, the highest shares of the region's FDI. Together they amounted to an average of 85.9 per cent of total inflows into the region for the period 1984-1989 and to 79.38 per cent in 1995.

78. In 1995, the FDI outflows from the ESCWA region totalled $1.02 billion, representing 0.32 per cent of the world outflows, as noted above, and 2.17 per cent of the total outflows from developing countries. The 1995 outflow figure reveals a decline of 9.6 per cent from that registered in 1994, when the outflows from the ESCWA region were $1.13 billion. However, the 1995 FDI outflows still constituted a significant increase when compared with the average annual outflows for the period 1984-1989, which amounted to $0.35 billion. In 1990 and 1991, outflows from the region totalled $0.44 billion and $0.32 billion, respectively. This drop was attributed mainly to the Gulf war,

during which two of the region's most important FDI outflow sources, Kuwait and Saudi Arabia, had to use their investments for military expenditures. The ESCWA region's outflows in 1992, however, were the highest since the mid 1980s, when they totalled $1.23 billion; this was almost entirely due to Kuwait's soaring outflows of $1.2 billion.

79. Among ESCWA member countries, Kuwait was the dominant source of the region's FDI outflows in 1995, with a figure totalling around $1.04 billion, followed by Egypt and Saudi Arabia with $13 million each. Kuwait has traditionally been the country with the highest outflow of FDI in the region, owing mainly to the policy of the Government to deposit 10 per cent of its yearly budget revenues in its Reserve Fund for Future Generations, most of which is invested abroad.

80. As noted above, ESCWA member countries have recognized that foreign investment can contribute to the development of their economies. They have manifested this paradigmatic change by opening up, privatizing, and deregulating the financial sector and by promulgating investment laws geared to attract foreign investment. The three MENA Summits (Casablanca in 1994, Amman in 1995, and Cairo in 1996) were clear indications that the Middle East and North African countries have committed their economies to creating investment-friendly environments. There are, however, several requirements that the ESCWA region must meet in order to accelerate FDI inflows significantly. One is political stability. Investors are attracted to countries that have a track record of political stability, which the ESCWA region lacks but is seriously trying to achieve. A second requirement is the absence of restrictions on ownership. Some ESCWA member countries favour joint venture contracts, but many multinational corporations regard joint ventures as not sufficiently attractive for investment. In assessing the viability of a country for FDI, they also consider any ownership restriction to be a serious adverse factor. However, some member countries - namely Bahrain, Egypt, Jordan, Lebanon and the Syrian Arab Republic - have recently changed their laws to allow, in some sectors, 100-per-cent foreign ownership. Some ESCWA member countries offer tax exemptions and guarantees to foreign investors. A third requirement pertains to the removal of excessive bureaucracy. The Governments of the countries in the region should commit themselves to facilitating transactions, administrative procedures and decreasing bureaucracy. They should also adhere to international standards and enhance the information and availability of data in order to reduce market entry costs. Furthermore, the recent regionalization trend should send a message to the ESCWA region and to all other Arab countries to engage in cooperative economic processes, such as creating an Arab free zone area and thereafter an Arab common market. Regional blocs are a reality and have influenced the flow of FDI that favours members of the same bloc. ESCWA member countries have to take this fact into consideration and pre-empt any negative effect that could hinder inflows of FDI.

V. STATUS OF WOMEN

81. Women's recent achievements in the ESCWA region in the fields of education, health and employment have been encouraging, compared with the 1970s. However, their participation in public life, power-sharing, decision-making and politics

has been below expectations. Inasmuch as legal awareness and the empowerment of women are concerned, much more is needed to overcome the existing economic hurdles, alleviate poverty, and promote self-reliance, financial independence and security in the broadest sense.

82. Traditions, values and norms constitute the single most important cultural and religious framework within which women in the rapidly changing societies of the ESCWA region may participate and become integrated into the development process. The family remains a central institution in the ESCWA region, and women remain the nucleus of this institution as wives, sisters, mothers and child-bearers and -rearers. The society, however, is becoming more and more "gender-sensitized" to the different roles and functions of its individual members. These individuals - men, women, children, youth and the aged - are increasingly being looked upon as partners in the development process.

83. According to available data, in 1995 around 34 per cent of the female population in the ESCWA region, aged 15 and above, were still illiterate; the comparable figure for males was 17 per cent. Although women's illiteracy rates have been declining in most member countries, unfortunately the gender gap is widening. In 1995, female illiteracy rates ranged from a disconcertingly high level of around 76 per cent in the case of Yemen, to a less alarming range of between 20 and 23 per cent in Jordan, Bahrain and the United Arab Emirates, and to a more encouraging low rate of 9-13 per cent in Lebanon, Kuwait and Qatar. Notwithstanding the implementation of policies such as "Education for All", which encourages higher enrolment of girls in schools and, in some countries, allocates higher budgets for the education sector as a percentage of total public expenditure, the gender gap has not narrowed sufficiently in the region. The high drop-out rate of girls from schools is still a major problem, and the situation in the rural areas remains critical. More often than not, high female illiteracy rates are associated with a wider gender gap (Yemen, Syrian Arab Republic, and Saudi Arabia), and low illiteracy rates with a narrower gap (Lebanon, Qatar, Kuwait, Jordan and Bahrain). For instance, the gender gap in the Syrian Arab Republic is eight times that in Lebanon. However, eradication of female illiteracy has been the target of concerned non-governmental organizations, which have been working closely with the Governments of ESCWA member countries and specialized international agencies, especially since 1995.

84. In Egypt, Iraq, the Syrian Arab Republic, and most of the GCC countries, welfare policies are pursued and health care services are freely provided or substantially supported by the Governments. In certain GCC countries, non-national residents are also medically covered.

85. In 1995, the average life expectancy for Arab women in the ESCWA region was 20 years longer (21 years longer for men) than it was four decades ago. For instance, average life expectancy for women in the GCC countries, the West Bank, Lebanon and Jordan ranged from 70 years in Jordan to 77 years in Kuwait. Meanwhile, life expectancy at birth in the least developed ESCWA member country, Yemen, was only 51 years. Egypt recorded the highest relative improvement in average female life expectancy between the periods 1970-1975 and 1990-1995; the figure increased from 53 years in the first period to 65 years in the second. At the same time, the total fertility rate has been declining moderately in ESCWA member countries. The average number of children per woman of

childbearing age in the region dropped from 6.8 to 5.2 between 1975 and 1995. Fertility rates, however, varied across the member countries, ranging from a low of around 3.1 children in Lebanon and Kuwait to a high of 7.6 children per woman in Yemen. Family planning is being increasingly pursued, through awareness campaigns with the assistance of non-governmental organizations and specialized agencies. More women are able and empowered to make decisions regarding the number of children they want to bear. Better education and higher literacy rates, improved health and more employment opportunities, combined with older age at first marriage, are all positively correlated with lower birth rates and smaller family size units in the ESCWA region.

86. Worldwide, the participation rate of women in the labour force is lower than that of men. This phenomenon is particularly true in the ESCWA region. In 1994, the most recent year for which data were available, women represented a meagre 15 per cent of the total labour force of men and women aged 15 years and above. Women's participation rates in the labour force, however, vary greatly between the more diversified economies of the region and the GCC countries. In 1994, women represented slightly above one fourth of the labour force in Lebanon, and slightly above one fifth in Egypt and Iraq. In most GCC countries, however, women accounted for only 7-9 per cent of the labour force.

87. Rapidly changing economic conditions have counteracted the reluctance, arising from traditions and social norms in the region, to encourage wider and stronger participation of women in economic activity. The marginal improvement in women's participation has been mostly evident in clerical work and services, the informal sector and, to a much lesser extent, in industry. No major breakthrough has been made in women's access to new jobs and away from traditionally "female" jobs. Analysis of the sectoral distribution of women revealed that by the mid 1990s, on average, around 70 per cent of the economically active women in the ESCWA region were concentrated in the services sector (teachers, secretaries, clerks and nurses), while nearly one fifth worked in the agricultural sector and the balance were in the industrial sector, largely in manufacturing (textiles and food). The percentage distribution of the female labour force is merely a reflection of the economies of the countries concerned. For example, in the Syrian Arab Republic, where the agriculture sector plays a major role in the country's economy, around 65 per cent of the women in the labour force work in the agriculture sector. In Yemen, also, where agriculture is a predominant sector, almost half of the women work in the agricultural sector. Meanwhile, in Jordan, a service-oriented economy, 92 per cent of the women in the labour force work in the services sector. Similarly, in most of the GCC countries, where it is not socially accepted for women to work in the oil/industrial sector, the majority of the already small percentage of working women are in the services sector (reaching as high as between 90 and 100 per cent in Qatar, Kuwait, Bahrain and the United Arab Emirates). In Saudi Arabia, measures were adopted in 1997 to increase employment opportunities for women in the private sector (services including hotel management). In Lebanon and Egypt more than one fifth of the female labour force worked in the industrial sector in 1994.

88. In public life, women are now sharing - though to a limited extent - in the decision-making process and have recently become relatively more visible. In most Arab countries, except for the GCC countries, women have gained their

rights of suffrage: the right to vote and run for public office. Unfortunately, however, less than 3 per cent of the seats in the Parliaments of 7 of the 13 ESCWA members are occupied by women. The highest representation of women in the Arab Parliaments is in Iraq and the West Bank and the Gaza Strip (over 10 per cent), followed by the Syrian Arab Republic (over 8 per cent). The lowest representation of women is in the Parliament of Yemen, with less than 1 per cent of the seats. The period since 1995, when the Fourth World Conference on Women was held, has witnessed a heightening of demands by women and non-governmental organizations concerned with women for women's rights, a greater role for women in decision-making and the removal of obstacles to greater political participation and power-sharing for women. In Kuwait, where women have not yet acquired the right of suffrage but have strongly voiced their demands for political participation during the 1996 parliamentary elections, there are, nevertheless, Kuwaiti women ambassadors and deans of institutes of higher education. Similarly, in 1996, a Qatari woman was appointed Under-Secretary (Ministry of Education and Culture), and in 1997 a Yemeni woman was appointed Under-Secretary of the Ministry of Information, for the first time.

89. Legal awareness campaigns and an increased resort to the media to change the prototypical negative image of women are the hallmarks of the years since the Fourth World Conference.

90. Political instability, compounded by increasing economic vulnerability and external dependence, together with outdated legislation and policies that need to be amended to take account of the changing environment, has militated against women's growth and their contribution to the development process. The gender gap has to be bridged in all areas of critical concern to the women in the ESCWA region, starting with the alleviation of poverty (economic dimension), encouraging the participation of women in decision-making (political dimension), and focusing on the family as the central unit of the Arab civil society and on the role of women and men therein (social dimension). Arab Governments have agreed to address these three themes. The important question is whether and when Arab women will move from the "women in development" to the "gender and development" phase, in which women would cease to be an add-on component in development plans and become an integral element in all policies and programmes. This would be the phase in which a gender perspective is incorporated into the mainstream of all development policies and programmes.

Table. Socio-economic indicators for the ESCWA region, 1994-1996

	1994	1995	1996[a]
Gross domestic product (GDP) (billions of US dollars)[b] at constant 1992 prices	289.9	296.3	310.8
Real GDP growth rate (percentage)[b]	0.8	2.2	4.8
Population in the ESCWA region[b] (millions)	118.2	121.5	124.9
Population growth rate (percentage)[b]	2.80	2.79	2.80
Per capita GDP (US dollars)[b]	2 451	2 437	2 487
Growth rates	(1.8)	(0.6)	2.1
GDP at nominal prices (billions of US dollars)[b]	293.3	320.7	353.3
Per capita GDP in nominal prices (US dollars)[b]	2 481	2 638	2 828
Growth rate	1.3	6.3	7.2
External debt (billions of US dollars)[c]	186	182	175
External debt/GDP (percentage)[c]	64	61	56
Exports (billions of US dollars)[b]	102.7	115.0	132.4
Imports (billions of US dollars)[b]	85.6	93.3	101.8
Balance of trade (billions of US dollars)[b]	17.1	21.7	30.5
Current-account balance (billions of US dollars)[c]	(7.1)	(8.7)	(1.4)
International reserves (billions of US dollars)[d]	45.7	51.2	54.4
International reserves/import ratio (months)[d]	6.4	6.6	6.4
Crude oil production (millions of barrels per day)	16.052	16.119	16.260
Crude oil revenues (billions of US dollars)	72.4	80.1	96.5
Proven oil reserves (billions of barrels)	568.5	570.0	575.0
Proven oil reserves/total world oil reserves (percentage)	56.9	57.0	57.1
Proven oil reserves/production (years)	98.8	98.2	98.3

Source: Economic and Social Commission for Western Asia, based on national and international sources.

Notes: Parentheses () denote a deficit or negative.

[a] Preliminary estimates.

[b] Excluding Iraq.

[c] Excluding Iraq, Syrian Arab Republic and Yemen.

[d] Excluding Iraq and the Syrian Arab Republic.